FINANCIAL TIMES

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A referendum on a flawed presidency
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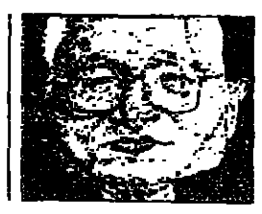

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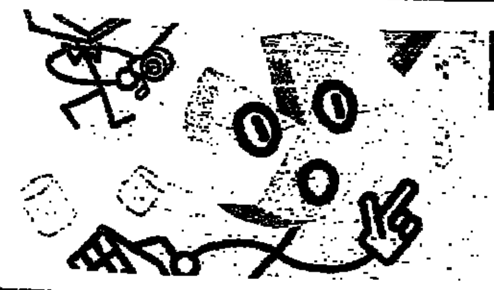

Mastering Marketing

Part eight: Sector marketing

WORLD NEWS

Post-Mitch storms bring havoc to Central America

Wide areas of Central America have been plunged into chaos by intense storms that have left almost 500 dead and caused extensive damage. Honduras and Nicaragua have been worst hit by the rain brought in the wake of Hurricane Mitch. **Page 6**

Mandela criticises ANC response
President Nelson Mandela of South Africa, admitting that the ruling ANC violated human rights during its struggle against apartheid, has criticised his party's angry response to a report last week by the Truth and Reconciliation Commission. **Page 3**

Brussels pressures UK over tax
The UK is under renewed pressure from the European Commission to drop its resistance to an EU directive aimed at harmonising tax on income from savings and investment. **Page 2**

One-man Mahathir protest
A lone protestor demanded reform of Malaysian prime minister Mahathir Mohamad's 17-year rule, marching outside a mosque where similar protests turned violent the week before. **Page 5**

US to improve meat checks
The US government has agreed to improve checks on meat sold to the European Union after EU veterinary experts recommended a ban on imports over perceived monitoring deficiencies. **Page 4**

Hamas radicals threaten police
The military wing of Hamas, the Palestinian opposition Islamist movement, threatened to attack Palestinian Authority policemen if the PA continues a crackdown on its members. **Page 3**

Hyundai to invest in N Korea
Hyundai, South Korea's largest conglomerate, has thrown an economic lifeline to cash-starved North Korea by promising industrial projects. **Page 4**

Israel 'boosts settlement funding'
Israel is to spend 50 per cent more on Jewish settlements next year, claims independent Israeli organisation Peace Now. **Page 3**

Kuwait's deputy PM quits
The deputy prime minister of Kuwait, Nasser al-Rowdhan, who also served as minister of state for cabinet affairs, has resigned.

Taipei cuts Tonga ties
Taiwan is to sever diplomatic ties with Tonga today after the South Pacific nation said it would establish relations with China.

Gang admits killing Catholic
A Northern Ireland Protestant gang calling itself the Red Hand Defenders claimed responsibility for killing a Catholic civilian.

Croatia-Bosnia agreement
Croatia and Bosnia's Moslem-Croat federation are expected to sign an agreement to improve bilateral relations. **Page 2**

Protest blanks websites
Thousands of internet sites in Germany went blank in a protest over Deutsche Telekom's rates for connecting to cyberspace.

Napoleon's gun stolen
A hunting gun owned by French emperor Napoleon has been stolen from a Geneva museum.

BUSINESS NEWS

Merrill Lynch launches sector trading in Europe

Merrill Lynch, the US investment bank, has begun trading in European equities by sector rather than by country in a trend towards sector-based share trading in the run-up to Europe's single currency. **Page 19**

Russia and its foreign bank creditors are expected this week to make a last-ditch attempt to settle their differences over how the country is to repay billions of dollars in defaulted domestic debt. **Page 18; Russian recovery plan, Page 2**

Investment bankers believe the European takeover market may have been revitalised by last week's DM3.13bn ($1.9bn) takeover of Herberts, the paints arm of Hoechst, by Du Pont, the US chemicals group. **Page 22**

Sony Corporation, the Japanese electronics group, is in talks with actor Sean Connery about building a film studio in Edinburgh, the Scottish capital. **Page 8**

Rank Group, the UK leisure and entertainment company, has received a preliminary approach about a possible £2bn ($3.4bn) break-up from John Garrett, the former head of the group's leisure division who was ousted earlier this year. **Page 19**

BP Amoco, the oil group to be formed by the £32.6bn ($55.1bn) takeover by British Petroleum of Amoco of the US, expects to spend around $2bn for severance payments and restructuring once the merger is approved. **Page 19**

The sale of a further 10 per cent of OTE, Greece's partly privatised telecoms operator, is set to raise $1.1bn for the government after being subscribed 1.8 times. **Page 24**

Fuji Bank and Dai-Ichi Kangyo Bank are drawing up plans to create the first strategic alliance between two large commercial banks in Japan and are considering buying the viable business lines of Yasuda Trust bank. **Page 19**

Statoil, the Norwegian state oil company, said this year's profit would be significantly lower than in 1997. **Page 22**

Japan is to co-operate with the World Bank and the Asian Development Bank to provide guarantees for bonds issued by troubled economies in Asia. **Page 18**

Seagram has received approval from the US Securities and Exchange Commission to complete its $10.4bn bid for PolyGram, the Dutch music and film company. **Page 22**

Germany's federal government announced the sale of its Tank und Rast chain of motorway restaurants and petrol stations to a three member consortium of investors. **Page 24**

World Equity Markets

The latest trends and data from more than 50 national markets at a glance

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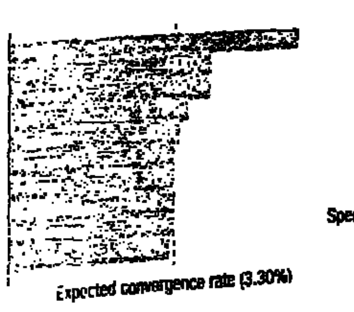
EURO INTEREST RATE CONVERGENCE



Local rate

Short-term
Discount
Repo
Repo
Tender
Repo
Intervention
Central
Special advance
Repo

This chart shows the official interest rates of the 11 countries that will participate in Europe's forthcoming single currency. Analysts surveyed by Standard & Poor's MMS International expect the short-term interest rates of the 11 countries to converge at a 3.30% initial rate for the European Central Bank at the beginning of 1999.

Expected convergence rate (3.30%)

Euro prices, Page 27

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Bahrain	Din1.300	Belgium	[illegible]	Cyprus	[illegible]
Denmark	DKr21.00	Estonia	[illegible]	Finland	[illegible]
France	FFr12.50	Gibraltar	[illegible]	Greece	[illegible]
Hungary	[illegible]	Iceland	[illegible]	Italy	[illegible]
Jordan	JD1.75	Israel	[illegible]	Latvia	[illegible]
Lithuania	[illegible]	Luxembourg	[illegible]	Morocco	[illegible]
Netherlands	Fl5.00	Nigeria	[illegible]	Norway	[illegible]
Oman	OR1.75	Poland	[illegible]	Portugal(Mainland)	[illegible]
Qatar	QR13.00	S.Arabia	[illegible]	S.Africa	[illegible]
[illegible]	[illegible]	Sweden	[illegible]	Spain	[illegible]
Switzerland	SFr3.80	Turkey	[illegible]	UAE	[illegible]

BAGHDAD ENDS CO-OPERATION WITH ALL WEAPONS TEAMS ■ US DEFENCE SECRETARY SAYS UNILATERAL ACTION STILL AN OPTION

Tension rises as Iraq bans UN inspectors

By Roula Khalaf in London

The US yesterday warned it was losing patience with Iraq after Baghdad refused to back down from a ban on all United Nations weapons inspections.

In the wake of Iraq's decision on Saturday to ban all UN inspections until crippling eight-year-old sanctions were lifted, William Cohen, US defence secretary, said: "Everybody is getting weary of dealing with Saddam Hussein [the Iraqi president]".

Although Washington preferred to co-ordinate its actions with the UN and allies, Mr Cohen reminded Iraq that unilateral military action by the US had always been an option.

In Baghdad, Tariq Aziz, Iraq's deputy prime minister, said his country was not "gambling or seeking confrontation", but had no choice but to end co-operation when it realised that working with Unscom, the UN special commission charged with dismantling Iraq's weapons of mass destruction, would not lead to a lifting of sanctions.

In August, Iraq suspended all inspections of new sites by Unscom. It went a step further on Saturday, banning arms investigators from visiting sites that had already been inspected and were being monitored by Unscom.

Iraq demanded the lifting of sanctions and the removal of Richard Butler, the Australian diplomat who heads Unscom and is accused by Baghdad of serving the interests of the US.

Baghdad, however, stopped short of expelling the inspectors, and said sensors and monitors placed in sites could continue operating. It also exempted from its latest decision the International Atomic Energy Agency with which Iraq has had less acrimonious relations over the years.

The UN security council on Saturday condemned the Iraqi decision as a "flagrant violation" of council resolutions and of the agreement reached in February in Baghdad with Kofi Annan, the UN secretary general.

But Taha Yassin Ramadan, Iraqi vice-president, rejected the UN security council statement. "We will not reverse our decision until the embargo is lifted," he said.

After Iraq defied the UN in August, the security council agreed to hold a comprehensive review of sanctions imposed after Iraq's 1990 invasion of Kuwait, but only after Baghdad allowed inspectors to resume their work.

Iraqi officials and the office of the UN secretary general have been engaged in discussions over the form of the review, which Iraq hoped would lead to a partial lifting of sanctions.

On Friday, however, the US rejected proposals by Russia, France and China that would have clearly committed the security council to a lifting of the oil embargo if Iraq complied with requirements to eliminate its weapons of mass destruction.

Analysts said yesterday the US had maintained its position that consideration should only be given to the lifting of sanctions if Iraq complied with other conditions, including accounting for missing Kuwaiti prisoners.

Iraqi officials yesterday made clear their decision to raise the stakes in the confrontation with the UN was a direct response to the US move.

Over the weekend, Russia and France called on Iraq to rescind its decision. The Russian foreign ministry urged Baghdad to weigh the negative consequences of its move, which it said could "seriously exacerbate the situation in the region".

Mr Butler, meanwhile, reiterated yesterday that Iraq was close to reaching its goal and that Unscom would be objective if it could win Iraq's co-operation in its hunt for weapons of mass destruction.

"It's a true and clear promise," he said.

An Iraqi guard watches as a nuclear inspection team leaves the UN headquarters in Baghdad. Two nuclear teams went into the field, but Iraq has barred work by biological, chemical and missile teams. AP

Schröder clashes with Bundesbank over growth

German chancellor calls for measures to boost economy

By Tony Barber in Frankfurt

Germany's new centre-left government plunged into a dispute with the Bundesbank at the weekend as Chancellor Gerhard Schröder demanded measures to stimulate economic growth and the independent central bank insisted that its primary task was to ensure price stability.

Mr Schröder, who said on Thursday that the government should settle its differences with the Bundesbank in private, weighed into the dispute with his first public warning to central banks to accept their responsibilities for promoting growth.

His target was not only the Bundesbank but also the European Central Bank, which will assume responsibility for interest rate policy in Europe's 11-nation single currency zone in January.

"My request is that all instruments he used to allow the economy to grow," he told trade unionists in the industrial city of Duisburg on Saturday. "These institutions should understand their responsibility not only for monetary stability but also for reasonably managed economic growth."

Noting that the nation's six leading economic institutes had cut their forecast for growth next year to 2.3 per cent, he added: "That is damn little, too little for a big offensive on the labour market that is supported solely by economic growth."

Interviewed in the German media before Mr Schröder's speech, Jürgen Stark, the Bundesbank's vice-president, rebuked its critics for undermining what he described as a 50-year-old German consensus on the need for central bank independence.

"Perhaps it has escaped some people, who are returning to Bonn now after a long time out of office, that the Bundesbank's independence and the primary importance of price stability are written in the constitution," he said.

Were it not for the increasing pressure from Mr Schröder's cabinet, Germany's first Social Democrat-led government in 16 years, economists would expect the Bundesbank's central council to hold its key interest rate at 3.3 per cent when it convenes on Thursday.

But Oskar Lafontaine, the forthright finance minister, has exercised his right to attend this meeting and is intent on putting the case for interest rate cuts as a way of boosting economic demand and helping some of Germany's 4m unemployed back to work.

Mr Lafontaine said in an interview with the news magazine Der Spiegel, published today, that the ECB would be judged by whether its policies would alleviate unemployment.

He indicated that the ECB should model its monetary policy on the US Federal Reserve. "Alan Greenspan, head of the American central bank, has shown that both things are possible – inflation-free growth and growth in employment," said Mr Lafontaine.

German political analysts believe the purpose of the government's criticisms may be to prepare the ground for an attempt to establish a political counterweight to the ECB. Such an attempt would be co-ordinated with France's Socialist-led government, which likewise believes that elected politicians must not cede control over economic policy to unelected central bankers.

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Philips set to close a third of its factories

By Gordon Cramb in Amsterdam and Alice Rawsthorn in London

Philips, Europe's largest consumer electronics group, plans to close about a third of its factories worldwide over the next four years, as it battles to revive stalled profits growth.

The Dutch group aims to cut its manufacturing sites from 244 to between 160 and 170 by 2002. It plans to make better use of remaining facilities and draw more on outside suppliers.

Cor Boonstra, president of Philips, said the group had "built too big a production capacity for requirements".

He said it was now open to acquisitions in areas such as medical products, semiconductors and lighting.

"Now we can take our pick where we acquire and grow," he said.

Mr Boonstra said that the main challenge to Philips – poised to sell its controlling stake in the PolyGram entertainment group to Seagram of Canada in a $10.4bn deal – was "not to jump into acquisitions because we have the liquidity".

He identified the US as the main market in which it wanted to expand.

Philips is also looking for global partnerships with other electronics manufacturers in particular product sectors, despite the unwinding of its year-old joint venture making telephone handsets with Lucent of the US, which has cost Philips some Fl 1bn ($540m).

Questioning Lucent's motives in entering into that deal, Mr Boonstra said: "At a certain moment you have to conclude that the partnering has not been done to strengthen the business, but to get out of the business."

Lucent is selling or closing its parts of the consumer communications operation. Philips, which saw the tie-up as a way to break into the US market for mobile phones, will concentrate instead on the European GSM standard.

As a result of the Lucent debacle – and a weakening of market demand which, according to Mr Boonstra, is now spreading to the US – Philips expects flat profits this year before any contribution from the disposal of its 75 per cent in PolyGram.

Philips is now scrutinising its remaining operations in electronics hardware after a two-year programme in which it has shed peripheral or underperforming units. That rationalisation has already reduced the number of Philips' plants. Twenty five sites have been closed this year with another 18 scheduled to follow.

Mr Boonstra said the final figure on closures would depend on how Philips's markets developed.

He added that the Dutch group had looked at both the "potential for integrating manufacturing facilities and at the possibility to close facilities."

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WORLD NEWS

EUROPE

BRUSSELS DIRECTIVE MONTI OFFER ON FINANCIAL SERVICES CRYSTALLISES BRITAIN'S DILEMMA OVER HARMONISATION

UK under pressure on withholding tax

By Emma Tucker in Brussels

Britain is under renewed pressure from the European Commission to drop its resistance to an EU directive aimed at harmonising tax on income from savings and investment.

Mario Monti, single market commissioner, is trying to break British opposition to the withholding tax directive by offering greater liberalisation of the EU's financial services market, including measures to dismantle investment curbs on supplementary pensions.

The withholding tax proposal, seen as a critical step along the road towards tax harmonisation, is being pressed by the Austrian government, which holds the EU presidency, and by the new German government, which takes over the presidency in January. They believe a greater degree of tax co-ordination is required to make the single currency work, and have said they would like to reach a general agreement on the issue by the middle of next year.

The directive would ensure a minimum tax of 20 per cent was paid on income from bank accounts and securities held in the European Union by EU residents.

Gordon Brown, the British chancellor of the exchequer, has said that until eurobonds are exempted from the directive there is no prospect of Britain signing up to it.

He argues that as drafted, the directive would discourage investors from buying future bond issues by European borrowers and could drive the market offshore.

Last week Tony Blair, British prime minister, said he would use the UK veto to stop any measure that would harm the City of London.

Mr Monti's offer crystallises the UK's dilemma ahead of possible participation in the single currency early next century. While the government is keen to protect City interests, it also wants to project a pro-European image. "What the Commission is saying is that if the UK wants to play ball in Europe, then it is going to have to give and take," said an EU diplomat.

The Commission insists there is no question of exempting eurobonds, and argues that any small setback to the City from tax would be more than compensated for by greater liberalisation of the EU's financial services market.

"Some tax co-ordination is a strict requirement if we are to have an effective single market for financial services," said Mr Monti. "Each step towards integration may have short run costs, but in the long run it will benefit more those countries that have by tradition a comparative advantage in this area. The UK is top of the list here."

At a recent summit in Pörtschach in Austria, Viktor Klima, the Austrian chancellor, called on EU countries to renew efforts for greater tax harmonisation, two months before the single currency is launched.

However, serious negotiations are a long way off. Discussions on the withholding tax directive are still only at a technical level and have not moved on to the more political issues such as whether eurobonds should be included. Proposals for a pensions directive will not be presented until next year.

Primakov: country needs strong state intervention AP

Russia stands by recovery plan

By Arkady Ostrovsky in Moscow

The cash-strapped Russian government has approved an economic recovery plan which has already failed to win the support of the International Monetary Fund.

The plan, approved at the weekend, will be published after November 5 and aims *to support domestic produc*ers and pay off wage and pension arrears accumulated by the state.

Yevgeny Primakov, the prime minister, said the country needed strong state intervention in order to come out of the financial and economic crisis.

But the plan, drawn under the guidance of Yuri Maslyukov, the communist deputy prime minister, has been rejected by the IMF, whose support is vital for the country which faces \$17bn in external debt payments next year.

A government official, quoted by the Interfax news agency, said the IMF criticised the plan as a "significant step backwards in forming a market economy". IMF officials left Moscow last week after 10 days of fruitless negotiations, refusing to release a \$4.3bn tranche of the \$22.6bn package agreed in July with the previous government.

Mr Primakov said that although Russia still *counted on the IMF funds*, it "will not in any circumstance fall to its knees. Everyone should be firmly aware of that."

The lack of external funding means the government will have no choice but to print money in order to plug the budget deficit, but Mr Primakov said this would not lead to soaring inflation. The government promised to keep annual inflation down to 25-30 per cent, a rate which can only be achieved by introducing price controls. The government also plans to increase its gold reserves and oblige exporters to convert 75 per cent of their hard currency earnings into roubles.

Croatia to sign deal with Bosnian federation

By Kevin Done
East Europe Correspondent

Croatia and Bosnia's Moslem-Croat federation are expected to sign an agreement soon to improve bilateral relations. It aims to make transparent existing covert financial support from Zagreb to Bosnian Croat institutions and to *pave the way for improving* co-operation in economic development, defence and in combating crime.

A parallel state-level deal between Zagreb and Sarajevo will allow Bosnia-Hercegovina to gain free access to the sea through the Croatian port of Ploce.

The prospective deals have been brokered by the international community, which is seeking to bolster the frag*ile institutions of Bosnia-*Hercegovina established under the 1995 Dayton peace accord, which ended four years of war in Bosnia and Croatia.

The framework agreement on "special relations" has been initialled by officials of Croatia and the Federation of Bosnia-Hercegovina, the Moslem-Croat entity of Bosnia.

The accord, which will *establish a "joint council for* co-operation" headed by Franjo Tudjman, Croatian president, and the federation president and vice-president, is expected to be ratified before the end of the year.

Republika Srpska, the Bosnian Serb entity of Bosnia-Hercegovina, has previously signed its own controversial bilateral agreement with Belgrade.

The agreement on special relations between Zagreb and Sarajevo has been negotiated by the west and in particular by Richard Sklar, the US envoy, and Jacques Klein, the principal deputy high representative of the international community in Bosnia.

The accord would help to make the financial support *flowing from Zagreb more* transparent, said Mr Klein, and would also give Bosnian Croats a greater sense of security to continue living in Bosnia-Hercegovina.

*Mate Granic, Croatian for*eign minister, said that the agreement would enable *Croatia to channel funds* legally and openly to Bosnian Croat institutions including the army.

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EUROPEAN UNION CONSULTANTS SET OUT DIRECTIONS IN WHICH THE BUSINESS CLIMATE MIGHT DEVELOP

Managers told to look to euro in 2008

By Andrew Balls in London

With less than 500 working hours to go before the launch of the euro, manag*ers might be forgiven for* concentrating their planning efforts on January 1 1999.

But a report published today by Anderson Consulting urges managers to look to 2008, 10 years after the euro's launch, at how it will change the European Union, and European markets.

"It is not enough simply to look at the past and extrapolate," said Vernon Ellis, managing director of Anderson Consulting in Europe, commenting on the 18 *month study, based on* research and consultation with industry, economists *and political analysts.*

"Powerful forces and trends – economic, social and political – are pushing Europe in different directions, and executives need to be ready to respond whatever happens."

The report outlines three starkly different business landscapes, and says companies must plan now for how they will fare in each case to ensure commercial success:

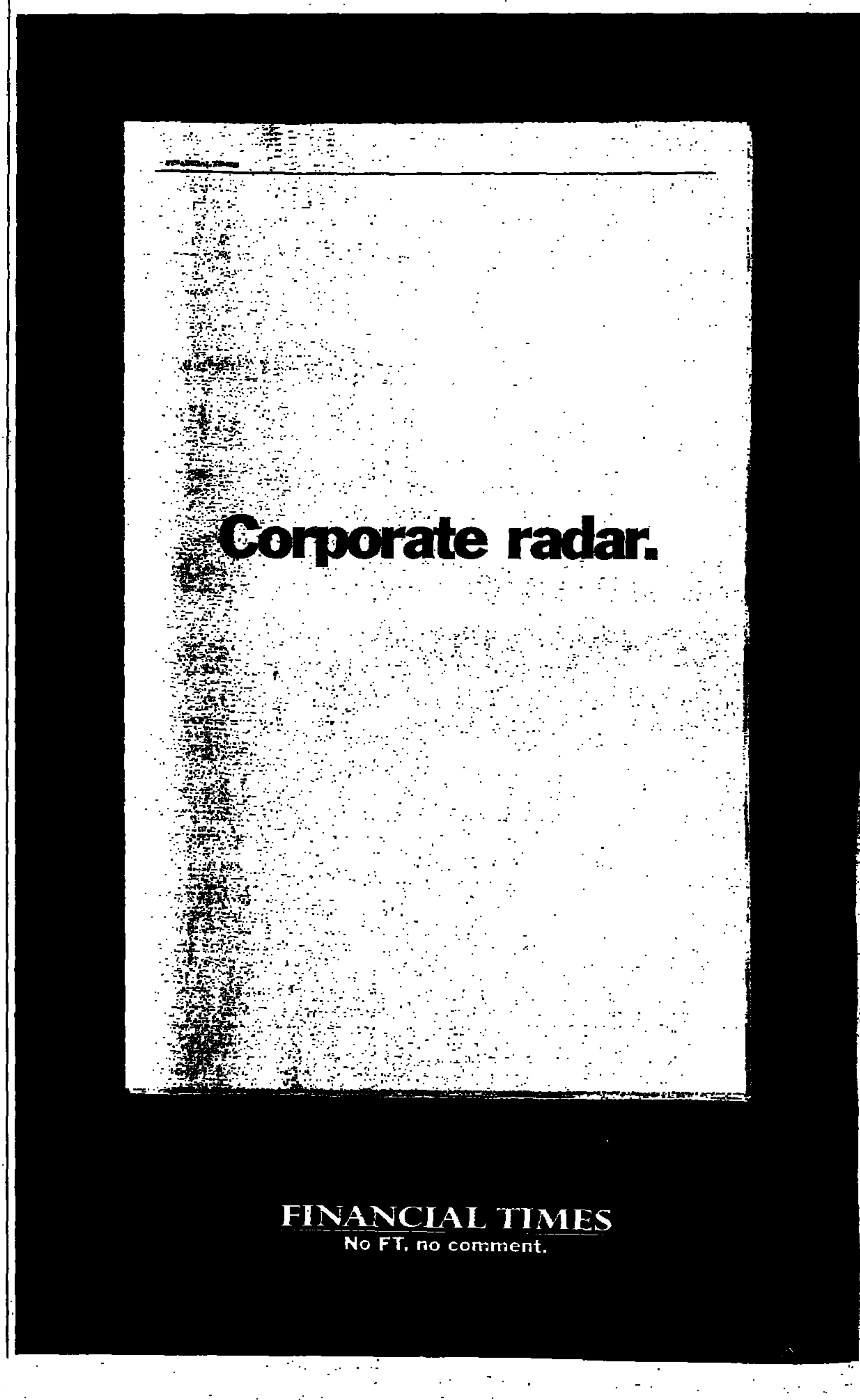
- "Competitive Europe": capitalism is dominant in an *enlarged EU with a single* market and a single currency. Competition is *encouraged and the labour* market is lightly regulated. The gap between rich and poor is widening.
- "Conscience Europe": an enlarged and integrated EU with interventionist social and economic institutions ensuing high minimum social and environmental standards, more regulation, less innovation, and the rise of protectionism.
- "Patchwork Europe": the euro has collapsed, weakened from the start by the *non–participation of the UK.* Different national currencies have reappeared. So too have trade barriers. In a highly fragmented EU, regions pursue their own very different agendas, based on their differing socio-economic models.

The report outlines requirements for commercial success in all three cases.

Alongside efforts to reduce costs and increase productivity, "businesses must be alive to alliances that may enable them to exploit changes within and across industries and across political boundaries".

New technologies and the rise of e-commerce will play *a vital role in enabling busi*ness to get closer to customers, increasing market penetration and reducing the cost of customer contact. The quality of a company's staff will be vital, "making it essential in every scenario that people are treated as long–term assets", the report says.

Europe Beyond the Millennium – Making Sense of Tomorrow. Tel +44–171–304–8748.



UK to urge measures to rein in hedge funds

By Andrew Balls in London

Gordon Brown, UK chancellor of the exchequer, will today call for an international agreement on standards of best practice for transparency and disclosure in the private sector, to rein in the activities of hedge funds.

Mr Brown will call on the Basle Committee to build on last week's statement by the Group of Seven leading industrial countries.

The Basle Committee, the international bank supervisor, groups supervisors from the leading industrialised countries.

In a statement to the House of Commons on the G7 communiqué, Mr Brown will say that international codes of good practice on transparency and disclosure, outlined by the G7, should apply to the private sector to act as a benchmark for financial institutions and their regulators.

The scope for regulating hedge funds and other highly leveraged trading institutions directly is limited, since they can move offshore to escape controls.

The threat posed by hedge funds was highlighted by the near collapse of Long-Term Capital Management. The US Federal Reserve was forced to orchestrate a bail-out, even though LTCM was unregulated. It justified this in terms of fears over systemic risk to the US financial system.

Mr Brown, who brokered the G7 plan, will say that there is a clear and urgent need to reinforce disciplines on hedge funds, through the financial institutions supplying them with finance, and to ensure that proper due diligence procedures are in place for banks, and for other institutions that take on exposures to hedge funds.

As part of the general capital adequacy review, Mr Brown will say, the Basle Committee should examine the appropriate treatment of banks' exposures to hedge funds so that there is proper provisioning against risk.

The G7 agreed on "strong global action to promote greater openness in the financial operations of individual countries, of financial and corporate institutions and of the international financial institutions." Mr Brown wants a code of transparency and disclosure to be applied to the private sector.

The G7 statement calls for the "examination of the implications of operations of highly leveraged and offshore institutions, with a view to encouraging offshore centres to comply with internationally agreed standards."

It also calls for measures to strengthen the "prudential regulation of financial institutions in industrial countries to promote safe and sustainable capital flows, encouraging sound analysis and better risk assessment."

Alongside the announcement of precautionary credit lines, provided by the International Monetary Fund to countries with approved IMF policies that are threatened by financial contagion, the G7 statement outlines a number of measures to strengthen the global financial system and guard against future crises.

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Mbeki: his office described the report as 'scurrilous attempts to criminalise the liberation struggle' Ashley Ashwood

SOUTH AFRICA PRESIDENT CLA...

Mandela atta... bid to halt truth repo...

By Victor Mallet in Johannesburg

President Nelson Mandela of South Africa, admitting that the ruling African National Congress violated human rights during its struggle against apartheid, has sharply criticised his party's angry response to last week's report by the Truth and Reconciliation Commission.

Speaking in Kimberley at the weekend, Mr Mandela acknowledged that he had a "difference of opinion" with his deputy Thabo Mbeki, who backed an 11th-hour attempt by the ANC to stop publication of the report because of its findings about the ANC.

The commission's final report, handed to Mr Mandela on Thursday after two years of hearings into human rights abuses between 1960 and 1994, calls apartheid "a crime against humanity" and puts most of the blame for the sufferings of South Africans on the previous regime.

But it also finds the ANC guilty of gross human rights violations, including the killing of innocent civilians in bomb attacks and the torture and execution of suspected mutineers and spies in guerrilla camps outside South Africa.

Mr Mbeki's office said no member of the ANC could ever concur with such "scurrilous attempts to criminalise the liberation struggle", and also denied there was any disagreement between Mr Mandela and Mr Mbeki.

Mr Mandela, however, took a different view. He defended the commission's findings and suggested that Mr Mbeki and ANC headquarters had over-reacted because they had only been given access to extracts about the ANC and not the whole report. Mr Mbeki is head of the ANC and is expected to succeed the 80-year-old Mr Mandela as the country's president following a general election next year.

"The ANC was fighting a just war, but in the course of fighting the just war, it committed gross violations of human rights," Mr Mandela was quoted as saying by the Johannesburg Sunday Times. "Nobody can deny that, because some people died in our camps and that's what the TRC said."

Referring to Mr Mbeki and the ANC's unsuccessful attempt to stop publication, he added: "I am convinced my approach was correct and on the basis that he may have not seen the report he responded on the information he had. No doubt if the report had been read, perhaps the response of the ANC would have been totally different."

Some ANC officials are reported to be unhappy with the party's court challenge, which has tarnished its international reputation and prompted Archbishop Desmond Tutu, the commission's chairman, to warn of the dangers of tyranny and oppression by dominant political parties such as the ANC.

Meanwhile, P.W. Botha, the former president who is held accountable by the commission for the killing of anti-apartheid activists, has complained that it ignored his written submissions.

Israel boosts funding for settlements

By Judy Dempsey in Jerusalem

Israel is to spend 50 per cent more on Jewish settlements next year, with spending for certain projects rising by as much as 570 per cent, according to Peace Now, the independent Israeli organisation.

The rise in expenditure, from Shk1bn ($235m) this year to Shk1.5bn in 1999, reflects the government's commitment to maintaining and expanding the settlements even though it comes at a critical juncture in peace negotiations with the Palestinians.

The future of the settlements is supposed to be left until final status negotiations. Due to start this week, these negotiations will also focus on Jerusalem, water and Israel's borders.

The expenditure increase contrasts sharply with plans by the finance ministry to introduce deep cuts in social welfare programmes and education in order to reduce the budget deficit from 2.4 per cent of gross domestic product this year to 2 per cent in 1999.

Yet none of the additional funding for settlements will go towards building new by-pass roads when the Israeli army withdraws from 13 per cent of West Bank land under the interim peace accord reached with the Palestinians in Washington last month.

Israel officials estimate an additional $500m is needed, much of which is expected to be provided by the US. They said such financing would also be used to compensate Palestinian owners whose land will be expropriated for the new by-pass roads and other security measures for the settlers.

Instead, any extra funding in next year's budget will include special tax incentives and mortgage benefits, as well as providing swimming pools, cultural centres, religious schools and improved security arrangements. Those who purchase housing in the settlements will continue to receive grants from Shk25,000 to Shk105,000, while residents will remain entitled to a 7 per cent income tax reduction as well as free nursery education.

The biggest expenditure will be allocated to Har Homa, the new settlement in south-east Arab east Jerusalem where 6,000 new Jewish homes will be built. Some Shk209.4m will be required to pay owners whose land was expropriated for the controversial project.

In addition, Shk40m will be used for developing water resources for settlers in Gaza and the West Bank, even though water is a final status issue. The West Bank settlements of Homesh and Nisanit will receive Shk825,000 and Shk300,000 respectively for building swimming pools.

Hamas military wing in 'threat' to Arafat police

By Avi Machlis in Jerusalem

The military wing of Hamas, the Palestinian opposition Islamist movement, yesterday threatened to attack Palestinian Authority policemen if the PA continues a crackdown on its members.

In a fax to western news agencies, Izz el-Din al-Qassam, Hamas' military arm, said the PA's "repressive techniques" might push it "to direct their war and guns, out of necessity, against the Authority's security apparatus."

It was the first time the movement directly threatened the PA, led by Yassir Arafat. But the PA did not initially comment on the threat: "We first need to be sure that it's from Hamas," said a PA official.

Tensions between Hamas and the PA have been running high for months, and have mounted following the signing of a new interim land-for-security accord last month, when the Palestinians agreed to tighten security.

Hamas has always opposed PA peacemaking with Israel, and Qassam units have killed scores of Israeli civilians in suicide bombings aimed at stopping the peace process. But the warning contradicts the official policy of Hamas' political leadership, which has always insisted its enemy is Israel and that it wants a dialogue with the PA to avert a civil war.

PA officials were also surprised since Sheikh Ahmad Yassin, Hamas spiritual leader, reportedly offered to launch a new dialogue at the weekend. Sheikh Yassin, who opposes the new accords, has been under house arrest since last Thursday, when a Hamas bomber tried to ram his car into a school bus filled with children of Israeli settlers in the Gaza Strip. Dozens more Hamas members have been arrested since the agreements were signed.

Political analysts said the statement – if authentic – might ironically help spark PA-Hamas reconciliation. "It is very likely that Hamas will begin to negotiate terms with Arafat under which they will exchange their military infrastructure for an active political role," said Khalil Shikaki, director of the Centre for Palestine Research and Studies, an independent think-tank.

…OMMEND IMPORT BAN AFTER FINDING MONITORING DEFICIENCIES AT LABORATORIES

…ises better health checks on meat

…mith in Brussels

T… US government has agreed to improve checks on meat sold to the European Union after EU veterinary experts recommended a ban on imports over perceived monitoring deficiencies.

US officials said they had made a firm commitment to implement a programme to meet the experts' concerns over analytical testing.

The EU dispatched four veterinary experts to the US in July after an EU inspection last year found fault with American testing for residues of hormones, antibiotics and other substances in live animals and animal products.

The follow-up team concluded that the US had not done enough to remedy "serious deficiencies" and recommended an immediate suspension of imports from the US of beef, veal, lamb and horse meat.

US meat exports to the EU are worth about \$100m a year and the EU exports about \$230m of meat to the US. An EU ban on US meat could provoke a similar response from Washington.

The European Commission, the EU's executive, said yesterday that talks were continuing with the US and it would not make a decision on what action to take until they were completed.

The dispute highlights a growing divide between the EU and other countries over food safety. The Commission recently told Australia it would ban its meat unless improvements were made in slaughterhouse supervision.

Brussels is also engaged in a long running dispute with the US over an EU ban on hormone-treated beef.

The EU veterinary team visited two analytical laboratories and found there had been no "major relevant improvements" to correct the problems detected in last year's visit. "The residue control programme cannot be considered as equivalent to EU requirements," their report says.

The report notes "clear evidence" in horsemeat of substances forbidden in the EU. "It cannot be excluded that meat from these contaminated horses may have been exported to the EU."

The report also recommends that the US authorities should audit export processing plants for milk and diary products more frequently. A residue testing programme should also be implemented for veterinary drugs in fish products.

Hyundai to invest billions in North Korea

By John Burton in Seoul

Hyundai, South Korea's largest conglomerate, has thrown an economic lifeline to cash-starved North Korea by promising industrial projects in what would be the largest outside investment in the isolated nation.

The deal was sealed in a weekend meeting in Pyongyang between Kim Jong-il, the reclusive North Korean leader, and Chung Ju-yung, Hyundai's founder.

The Hyundai investments are the first significant result of the "sunshine policy" of economic co-operation with the North promoted by Kim Dae-jung, the South's president.

The personal approval of the Hyundai deal by the North Korean leader also indicates a growing acceptance in Pyongyang of the need to attract foreign investment to save the crippled economy and its malnourished population.

The Hyundai investments, which could total several billions of dollars, include development of a resort complex and exploiting possible offshore oil fields.

Hyundai will pay \$906m to North Korea for exclusive rights over the next six years to develop tourism projects in the scenic Diamond Mountains area, which lies near the border with the South and is famed in Korean folklore.

In addition, the North will receive a "tax" of \$300 for every tourist, which would produce an income of \$450m a year if Hyundai succeeds in its goal of attracting 1.5m visitors a year by 2005.

Hyundai has already leased two cruise ships to ferry passengers, with the maiden voyage scheduled for November 18. It will later build hotels, golf courses, and skiing and hot springs facilities at the site.

Mr Chung said Hyundai was interested in developing oil reserves that North Korea claims it has detected off its west coast. The North Korean leader promised that Hyundai could build pipelines that would deliver the oil to the South.

The North also agreed to establish a special economic zone on the west coast, where Hyundai will assemble cars, repair ships and produce consumer products, while Hyundai may build a thermal power plant and sports stadium in Pyongyang.

Mr Chung, who was born in what is now North Korea in 1915, negotiated the deal after delivering 1,000 head of cattle and a fleet of Hyundai cars and trucks as a goodwill gesture.

Until now, the North has relied on exports of minerals and armaments, including missiles, to gain scarce foreign exchange, while also depending on dwindling contributions from pro-Pyongyang Koreans living in Japan.

Analysts said the Hyundai deal could help ease tensions between the two Koreas and promote the peace process on the Korean peninsula.

North Korea last week agreed to hold another round of peace talks in January with South Korea, the US and China in Geneva to try to replace the armistice that ended the 1950-53 Korean war.

Chung Ju-yung: goodwill gesture of cattle and trucks

NEWS DIGEST

FRENCH UNEMPLOYMENT

Jobless rate falls to 11.7% in September

French unemployment resumed its downward path in September, with the number of jobless falling by 42,900, or 1.4 per cent, to 2.95m. The unemployment rate, based on International Labour Organisation criteria excluding job-seekers who did any work, fell to 11.7 per cent.

The figures, which follow a 1.1 per cent rise in August, were welcomed by Martine Aubry, employment and solidarity minister, who described them as "good". Analysts said the data suggested that the underlying state of the French labour market remained healthy. They attributed the rise in July and August to a combination of the winding down of the World Cup, resulting in the end of many temporary job contracts, and the arrival on the job market of a large number of school leavers. **David Owen, Paris**

HONG KONG FINANCES

On course for rare deficit

Hong Kong incurred a budget deficit of HK\$42.6bn (\$5.5bn) in the six months to September as revenues of HK\$72.6bn ran short of the HK\$115.2bn expenditure. However, the Land Fund – which holds funds raised through government land sales – increased by HK\$2.97bn and fiscal reserves stood at HK\$417.9bn at the end of September. The interim figures, released at the weekend, come as the territory is on course for a rare full-year deficit, partly as a result of a nine-month suspension of land sales. Initially the government predicted this deficit would be HK\$21bn, but more recently it has been suggesting the figure may be higher.

Corporate bankruptcies, job losses, depressed turnover on the stock market and sharply lower corporate earnings have all helped erode revenues. At the same time, the government is committed to heavy infrastructure spending. But the interim statement warned against using the half-yearly figures as a benchmark, saying a substantial deficit at this stage was not unusual – even in good years – as the bulk of tax receipts were not normally received until the second half of the year. **Louise Lucas, Hong Kong**

GREEK POLITICS

Simitis defends policies

Greece's Socialist prime minister, Costas Simitis (left), yesterday defended the government's restrictive economic policies at the start of a confidence debate in parliament. The vote of confidence, due tomorrow, follows a partial cabinet reshuffle prompted by the Socialists' poor showing at local government elections last month. Voters were protesting over the government's failure to crack down on inefficiency and corruption in public administration, Socialist officials said. Last week Mr Simitis sacked George Romaiosm, public order minister, and Stefanos Tsoumakas, agriculture minister, and demoted Costas Geitonas, health minister. They were replaced by three low-profile Socialists who have held junior government posts.

Philippos Petsalnikos, minister for Greece's northern regions, took over as public order minister with a brief to clean up the police force, which has recently been accused of running protection rackets for drug dealers and prostitutes from eastern Europe. Several senior police officers were sacked last month after a botched rescue attempt caused a young woman's death in a hostage incident. Lambros Papademas, deputy interior minister, was promoted to health minister, and George Anomeritis, a backbencher who held deputy ministers' posts in earlier Socialist governments, became agriculture minister. But Mr Simitis avoided a shake-up at ministries which handle economic policy, signalling that Greece's bid to achieve membership of the European single currency by 2001 was still on track. **Kerin Hope, Athens**

GREENHOUSE EMISSIONS

Targets 'will be missed'

Developed countries are set to overshoot their legally binding targets for the emission of climate-changing greenhouse gases by 15 per cent, according to a study by Wefa, a consultancy.

This calculation, which Wefa says is based on "realistic" assumptions about the measures governments will take to reduce emissions, implies that carbon dioxide emissions could increase by 10 per cent by 2010. Wefa says that the agreement by developed countries to cut emissions by 5.2 per cent by 2010 that was struck at the Kyoto climate change conference last December was "reached with a lack of information and understanding of what could be achieved in the time available." It says the Kyoto targets can only be met if there is a substantial increase in the use of nuclear power instead of carbon-intensive fuels. In addition, it predicts that car use would have to be cut by as much as half. It says it "believes that governments will shy away from these and many similar measures in their efforts to meet their targets".

Two weeks of inter-governmental discussions about how to reach the targets agreed at Kyoto are due to begin in Buenos Aires today. Ministers and officials from 180 countries are scheduled to discuss flexible mechanisms to help them reach their targets cost-effectively. **Vanessa Houlder, London**

The Kyoto Protocol – a reality check. Executive briefing £950; full report £4,950. Wefa Energy, Mappin House, 4 Winsley Street, London, W1N 7AR. Tel +44 171 631 0757.

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MACEDONIA ELECTION

Opposition tipped to win

The opposition Internal Macedonian Revolutionary Organisation (VMRO), in alliance with Democratic Alternative, a new pro-market party, was expected to win yesterday's run-off vote in Macedonia's two-round general election. At stake were 62 seats in the 120-member parliament.

VMRO-DA candidates won 21 seats and were frontrunners in 41 constituencies in the first-round vote on October 18. The ex-communist Social Democrats, led by Branko Crvenkovski, the prime minister, captured 14 seats and held the lead in another 14 constituencies. The Social Democrats have governed Macedonia since 1992.

Candidates from two political parties representing Macedonia's large Albanian minority have won 20 seats and were expected to add another four or five. VMRO-DA is close to completing a co-operation agreement with the Democratic Party of Albanians (DPA), which would enable it to form a government if it fails to win an outright majority. VMRO, led by Ljubco Georgievski who served briefly as Macedonia's vice-president in the early 1990s, has renounced its nationalist platform since teaming up with Democratic Alternative early this year. **Kerin Hope, Athens**

Lone protester defies Malaysia crackdown

By Sheila McNulty in Kuala Lumpur

As evening fell in Kuala Lumpur, only one man dared invoke the "reformasi" rallying cry for reform of Malaysian Prime Minister Mahathir Mohamad's 17-year rule.

Holding a caricature of Dr Mahathir, the man marched up and down outside the mosque where protests by Malaysia's reform movement turned violent the week before.

One of the hundreds who stood watching the protester said the thousands who usually joined in the demonstrations were probably holding back until Anwar Ibrahim, the man who started the reform movement, was brought to trial today. He faces 10 charges of sodomy and corruption.

The previous week, anti-government protesters had ripped bricks out of the sidewalk and pelted them at police in retaliation for two months of breaking up their peaceful demonstrations with chemical-laced water and sometimes tear gas. Hundreds were arrested.

Anwar Ibrahim: his case has awakened protests

Dr Mahathir's supporters responded by putting signs in surrounding trees, saying "Do not disturb the peace," and "We're thankful Malaysia is a fortunate land."

The lone protester said Malaysians were afraid of being arrested like the hundreds who have been chased down and, in some cases, beaten for demonstrating for reform. Then as evening prayers ended, he was joined by more than 100 others, who pulled out pictures of Mr Anwar and Malaysian flags to risk arrest by shouting for the resignation of Dr Mahathir. Drivers honked and gave the thumbs-up as they passed. Some hung out of public buses joining in the chorus of calls for reform. The armed police stayed away.

Mr Anwar has pleaded innocent to the charges against him. He insists Dr Mahathir fired him in September as deputy prime minister and finance minister because his gentle calls for reform had found a willing ear among Malaysians, making him a threat to Dr Mahathir's standing as Asia's longest serving ruler.

Dr Mahathir insists evidence will bear him out. Attorney General Mohtar Abdullah said at the weekend Mr Anwar would face additional charges.

Although many remain confused about Mr Anwar's guilt or innocence, the way he has been treated has fortified the movement against Dr Mahathir.

Mr Anwar was first detained under the draconian Internal Security Act, which permits detention without trial. When he emerged it was with a black eye. He has been denied bail.

The case has awakened protests against what many consider to be a repressive administration.

Companies try to buy Suharto stakes

By Sander Thoenes in Jakarta

Unocal of the US and other leading investors in Indonesia are buying out partners tied to the former president, Suharto – ties that for a long time were a requirement for doing business in the country but are now a liability.

The Jakarta Post, the English-language daily, reported that Unocal had asked Nusamba, a business group owned by some of Mr Suharto's foundations, to sell its 10 per cent stakes in two oil blocks offshore East Kalimantan. Unocal's representative in Jakarta, Arthur Bracci, said the article appeared correct but said he could not offer any information.

El Paso Energy International of the US said last week it and its main partner in a local power plant, Energy Equity of Australia, wanted to buy a 5 per cent stake held by a company of Siti Haridyanti Rukmana, Mr Suharto's eldest daughter.

Mr Suharto, his children and closest cronies have been quietly liquidating their shares in many ventures, mostly obtained in return for government licences and contracts rather than cash. Mr Suharto and two of his sons have met prosecutors who are investigating corruption allegations against them but so far the cases have made little progress.

The government has moved to cancel a series of contracts with companies tied to the Suharto family in efforts to cut out fees of 30 to 40 per cent that have helped bring the country's airline, power utility and oil and gas monopoly close to collapse.

Faced with shrinking opportunities, the family is trying to sell its stakes for as much as possible, with mixed success. Business sources say Mr Suharto's second son, Bambang Trihatmodjo, appealed in vain to Indosat, a majority state-owned telecommunication company, to buy his share in a troubled cellular phone venture with Deutsche Telekom. Mr Bambang also found his stake in a gas block of Atlantic Richfield Company had been diluted to all but nothing as Arco invested while he failed to put up a penny.

Many of the family businesses have shrank just as dramatically, wiped out by a combination of falling share prices, a drop in the rupiah, deteriorating business and asset stripping by employees. In July 1997, Mrs Rukmana's shares in her listed toll road company, Citra Marga Nusaphala Persada, were worth about $286m; now they are worth about $1m. From making Rp51.9bn ($6.4m) profit in the first six months of 1997, Citra Marga lost Rp105.8bn in the first half of 1998.

Challenge to direct rule in Karachi

By Farhan Bokhari in Karachi

The largest political party in Pakistan's southern port city of Karachi has sought help from opposition parties to defy Friday's imposition of direct federal rule in the Sindh province, of which Karachi is the capital.

Prime minister Nawaz Sharif's government ordered direct federal rule, which includes suspension of the provincial legislature, after the Muttahida Qaumi Movement (MQM) walked out of its alliance with the ruling Pakistan Moslem League (PML), last week.

The break followed allegations from Mr Sharif that MQM activists were allegedly responsible for the recent killing of a widely respected former provincial governor.

The MQM's appeal to opposition parties includes one to the main opposition Pakistan People's party (PPP), once its main political foe.

Benazir Bhutto, the PPP leader, during her tenure as the prime minister was held responsible by the MQM for ordering a security clampdown in Karachi that allegedly led to the deaths of activists.

The call for a consensus among opposition parties is likely to increase the pressure on Mr Sharif's beleaguered government, analysts said.

Altaf Hussain, the MQM's leader, who lives in exile in London, said in a weekend telephone interview: "Now, all the democratic forces should unite on a one point agenda of restoration of the provincial assembly and granting provincial autonomy."

Mr Hussain however made it clear that the decision to approach the PPP did not mean that "our differences were over".

He said: "We have our differences with the PPP which will remain so, but there are some points in the interest of our people on which we can unite."

Mr Hussain's remarks coincided with reports of widespread arrests in Karachi, where officials said at least 100 activists of the MQM had been detained by the police and paramilitary troops.

The MQM has denied any involvement in recent killings, in response to accusations that a suspect who confessed to the recent killing of a former provincial governor was an MQM activist.

New Zealand's 'grey power' starts to flex its muscles

By Peter Montagnon in Auckland

An elderly matron called Violet waddled across the stage clutching a large but unflattering portrait of New Zealand's prime minister, Jenny Shipley.

Suddenly, to roars of delight from the crowd of fellow pensioners, she put the poster down, hoisted her skirt and broke wind in Mrs Shipley's face.

This was grey power in action at Auckland town hall over the weekend.

New Zealand's 450,000 pensioners make up nearly a quarter of the electorate. Raucous, determined and well organised, they have also come to represent the kind of militancy which elsewhere is usually associated with the young.

But their sheer weight of numbers means they demand attention from politicians, especially when they are angry.

And there was no mistaking the anger of Auckland's crowd of more than 1,000.

Grey power is roused because the government has recently decided to cut pensions to 60 per cent of the average wage from 65 per cent and link future rises to prices rather than average earnings growth.

The elderly want an immediate election in which they intend to wreak their revenge on Mrs Shipley's National party as well as on Winston Peters, her former coalition partner, by whom they feel particularly betrayed.

Mrs Shipley herself ducked out of the opportunity to enter the lion's den, sending instead her youthful pensions minister, David Carter, a wealthy property developer from Christchurch.

Mr Carter tried explaining that the cuts were necessary to sustain affordable pensions for his baby-boom generation.

By the time he retired, he said, the proportion of pensioners in the population would double.

But the audience refused to listen. Mr Carter was drowned out by boos and cat calls. About half the audience stood up and pointedly turned their backs on him. The rest bellowed approval as 87-year-old Helen Mary Marshal advanced on Mr Carter brandishing a pink umbrella.

Dazed and confused by the success of her audacious attack, the frail old lady was eventually led gently off the stage by Jim Anderton, leader of the leftwing Alliance opposition party.

There was no doubt that the audience's sympathies lay with Mr Anderton and with Helen Clark, Labour party leader, who has a good chance of becoming prime minister in an election that must be held some time in the next year.

Both promised to reverse

The elderly want an immediate election in which they intend to wreak revenge on Mrs Shipley's National party

the pension cut and glossed over the fact that Labour, when previously in office, had introduced a much steeper cut in pensions from 80 per cent of average wages to the present 65 per cent.

After years digesting single-minded market reform, New Zealand's elderly are showing a clear nostalgia for the egalitarian welfare state, which they believe they helped to build.

Not only do they want higher pensions; they want shorter hospital waiting lists, cheaper housing and better education for their grandchildren.

And their determination is boundless. Outside, rent strikers Len Parker, 63 with a heart condition, and Phyl Rodgers, 81, were collecting signatures for their petition to link rents to income and curb the NZ$122m (US$64m) profits of the state-owned Housing New Zealand.

Ms Rodgers was wholly undaunted by the emphysema that left her almost too breathless to speak.

"We'll carry on as long as it takes," she whispered.

Jenny Shipley: her government has sought to cut pensions and link future rises to prices rather than average earnings AP

Mitch takes big toll in Central America

By James Wilson in Guatemala City

Wide areas of Central America have been plunged into chaos by intense storms that have left almost 500 dead and caused extensive damage.

Honduras and Nicaragua have been worst hit by the rain brought in the wake of Hurricane Mitch, one of the largest ever recorded in the Caribbean. Flooding has left hundreds of thousands homeless and presidents Carlos Flores and Arnoldo Alemán have called for international assistance.

After leaving large areas of the north of Honduras cut off, the storms hit the capital, Tegucigalpa, where rain pouring off surrounding mountains has swollen rivers, washing away houses and bridges. Poor neighbourhoods have been carried down sliding hillsides. Power supplies have been cut, food shortages are feared and looting was reported in Tegucigalpa's shops. The British embassy was yesterday advising its citizens to stay in a safe place with enough food and water until the situation became calmer.

The death toll in Honduras yesterday stood at 230, with 200 people missing and 200,000 homeless. Some flights into the country have been suspended. Authorities fear outbreaks of disease from contaminated water supplies.

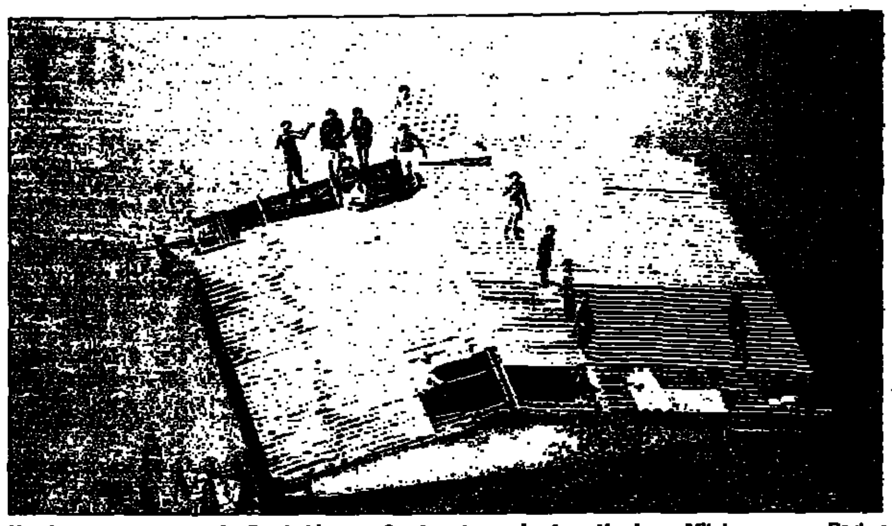
In Nicaragua, where around 120 people are dead and 150 missing, unconfirmed reports said several communities had been buried in mudslides from a volcano. Another 200,000 have been driven from their homes and large areas of the country are inaccessible. President Alemán said Nicaragua lacked the essential food and medicines to cope.

Mitch, which first began to affect the region a week ago, lost force when it veered over Honduras and was downgraded to a tropical depression, but its rains have continued unabated. The storms have also severely affected El Salvador, where around 30 deaths have been reported, and Guatemala, where roads to the east of the country were cut and 96,000 homes damaged.

The economies of the region are likely to suffer enormous harm. Honduras and Nicaragua are Latin America's poorest nations and rely heavily on agricultural exports such as coffee, meat and bananas, all hit severely. Popular tourist spots on Honduras' Bay islands have been flattened. The northern city of San Pedro Sula, the main industrial centre, has been cut off and its airport wrecked by flooding.

Aid has begun arriving in Honduras and Nicaragua and officials from the World Bank and Inter-American Development Bank were reported to be travelling to the region to discuss help for reconstruction.

Yesterday the centre of the storm was moving north-west over Guatemala, putting the Mexican state of Chiapas, which suffered widespread deaths in flooding in September, on further alert.



Hondurans on the roof of a flooded house after ferocious rains from Hurricane Mitch *Reuters*

Microsoft 'bullied Apple into alliance'

By Louise Kehoe in San Francisco

Microsoft bullied Apple Computer into the "grand alliance" that the two companies announced with great fanfare last year, a senior Apple executive has charged.

The partnership, which appeared to end years of animosity between the companies, was forced upon Apple by Microsoft's strong-arm tactics, according to written testimony to be presented in the Microsoft anti-trust trial today.

Avie Tevanian, Apple senior vice-president of software engineering, says in his testimony that Microsoft attempted to "sabotage" Apple's program for internet multimedia applications, called Quicktime, by causing misleading error messages to appear when the program ran on Windows – Microsoft's operating system.

Microsoft had also proposed that it split the multimedia software market with Apple, according to Mr Tevanian, in a charge that echoed allegations levelled by Netscape Communications in court last week.

"Microsoft does not hesitate to use its operating system monopoly power and application program dominance to try to eliminate competition, acquire control of new markets and block innovation that could challenge its position," Mr Tevanian said in his written testimony.

The stinging testimony drew sharp comments from Microsoft, which says it was mistakes by Apple's engineers that caused the Quicktime error messages. The company also denied any move to persuade Apple to share the internet multimedia market.

The testimony was "another example of how the government deliberately twists facts to support its distorted allegation", Microsoft said.

Mr Tevanian will be cross-examined by Microsoft's attorneys in court today.

He will no doubt be called upon to explain why Apple's previous public comments about its new relationship with Microsoft have been very positive.

Mr Tevanian is hailed in the software world as one of the principal developers of an advanced computer operating system called Mach, elements of which have been widely adopted throughout the computer industry over the past 10 years.

He once turned down a job offer from Bill Gates, Microsoft's chairman, and instead he chose to work for Steve Jobs, Apple Computer co-founder.

Now, his tricky position in the trial stems from the pact under which Microsoft acquired a small stake in Apple and agreed to pay royalties to settle a dispute over multimedia software intellectual property rights.

As part of the deal, Apple adopted Microsoft's internet browser software, dropping a similar arrangement with Netscape Communications. Evidence presented by the government last week included a note written by Apple's chief financial officer which implied that Microsoft had threatened to drop the development of office applications programs for Apple's Macintosh PCs.

If Apple's role in the court case sours its new-found friendship with Microsoft, it could be a setback for the PC maker.

Apple is planning to launch a new operating system next year and needs the continued support of software developers, and Microsoft in particular.

But it is precisely because it is not in Apple's interests to disparage Microsoft that Mr Tevanian could be a powerful witness against the company.

California's voters bask in warm glow of the familiar

Republicans have toned down their ambitions as speculative heat of the Starr report has cooled, writes **Christopher Parkes**

Republican hopes of majority representation in California's 52-strong congressional corps have faded even more than the party's ambitions for sweeping gains nationwide in tomorrow's mid-term elections.

Early expectations that 10 of the state's House of Representatives seats – eight Democrat-controlled – might be about to change hands, have been displaced by the less thrilling likelihood of a net gain for the Republicans of two, maybe less.

With a current congressional delegation of 29 Democrats and 23 Republicans, voters appear poised to vote either for the *status quo* or faces they know.

In less than two months the speculative heat generated by the release of the Starr report has dissipated. In its place is the steady, warm glow of the familiar: President Bill Clinton's popularity seems undiminished, even enhanced. The state's economic comfort factor is high and social tension is low. Even the weather is behaving itself.

For California's congressional delegation, 1998 looks likely to be the year of the sitting representative, with most Republican ambitions now focused on just five "open" seats.

Still, disappointment for the Republican side is unlikely to promote jubilation among Democrats, for whom the expected result is a bout of agonised reflections on what might have been had they not been disoriented by Washington's scandals and obliged to deploy most of their forces to defend on a broad front rather than attack the opposition's weakest points.

In the end, incumbents occupying California's 42 "safe" seats had a relatively quiet time in a campaign season dominated by the alleged vulnerability of Democrat Senator Barbara Boxer, and the fumblings of Republican Dan Lungren in the gubernatorial race with Gray Davis.

But there is still time and room for upsets, especially if voters choose to stay at home. A low turnout, recently predicted at a precarious 44 per cent, could be damaging for Democrats, who were blessed with an unusually strong showing in the June primaries.

The economic and social climates may play their part in depressing voting numbers, but the lack this time of big-issue, contentious ballot initiatives such as recent propositions to ban affirmative action, end bilingual schooling and cut union funding of political campaigns are also likely to cut into Democrat voting numbers.

On the other side, residual strong feelings over events in Washington may spur increased Republican participation. Also encouraging for Republicans is that whatever their failings on their own account, Mr Lungren and Matt Fong, Ms Boxer's opponent, have worked hard in the past months to regain the support of Latino and other immigrant groups for their party.

Even Robert Dornan, the Orange County Republican narrowly squeezed out of his long-held congressional seat last time by Loretta Sanchez, has made a show of courting the Latino vote. However, his claim to be the "real" Latino in this race – based on his anti-abortion stance and Catholic origins – has cut little ice in a strongly Hispanic district where he is best remembered for his claim that he was robbed of his seat in 1996 by illegal immigrant voters.

Further north, on the southern fringes of Santa Monica Bay, Republicans make the more creditable claim that the 36th District was only on loan to Jane Harman who had been hard-pressed to hold it during her six years in office. The well-heeled moderate Democrat gave it up for her failed run in the governorship primary. Janice Hahn, from a local political family, stood as the only Democrat contender in the primary, while local Republicans rushed to reclaim "their" territory.

A rough-house primary run-off between three eager candidates left Steve Kuykendall, a local state assemblyman carrying the flag in a tight general election race between two dedicated moderates.

Mr Kuykendall is no shoo-in, scarred as he is by his acceptance in 1994 of a handsome contribution from a tobacco company, but his experience and middle-of-the-road record in Sacramento bolster his attractiveness to voters who seem unwilling to take chances on the unknown.

If having a familiar face provides some advantage in this election, there are those such as Vic Fazio, retiring after representing his Sacramento constituency for 10 terms and Republican Frank Riggs, the departing incumbent from the Napa region, who may have misjudged the mood when they left their seats open.

Mr Fazio, a substantial force in the House Democratic hierarchy, has in recent elections faced increasing pressure from the steady gentrification of his territory, and has left the field open to a brace of unknowns. His District 3 is now the best-bet gain for the Republicans.

Mr Riggs, on the other hand, was facing a challenge from an even better-known face when he moved on to take a brief, fruitless shot at the US Senate. Even though the district has a reputation for swinging from party to party, the candidacy of seasoned Democratic state senator Mike Thompson was enough to send most potential Republican opponents running for cover.

In the end, Mark Luce, a local government supervisor, joined the race late and next week seems set to suffer the misfortune of losing while the Democrats make their only gain in this year's congressional elections.

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Minister confident on borrowing target

By Robert Peston and Richard Adams in London

Gordon Brown, the chancellor of the exchequer, will this week insist that public borrowing is not set to climb out of control in spite of downgrading the Treasury's forecast for economic growth next year to a range of 1-1.5 per cent.

Although the Treasury will use the lower 1 per cent figure as the basis for borrowing and revenue projections, it is less gloomy about the outlook for public finances than a new forecast from the National Institute for Economic and Social Research.

Mr Brown's 30-minute pre-Budget statement to the House of Commons tomorrow will also include a commitment to adjust excise duty to discriminate against petrol-guzzling cars, and a proposal to increase the budget of the Office of Fair Trading, the main competition regulator.

The institute says public borrowing is likely to exceed public investment by £23bn ($39bn) between 1997 and 2001. This would breach the so-called golden rule that borrowing is not used to finance current spending.

In contrast, Mr Brown will insist that he does not have to cut back on his three-year spending plans, since he remains confident of sticking to the golden rule.

At the heart of Mr Brown's statement will be a new commitment to promote competition, as the main policy prescription for tackling low industrial productivity. "You will see a different philosophy from the previous government, where we abandon any notion of creating 'national champions' and concentrate on ensuring maximum competition in product markets," said a government member.

Mr Brown is raising the £20m annual budget of the OFT by 25 per cent. A government member said it was a "sign that we want it to carry out more inquiries into anti-competitive behaviour".

Ministers at the Department of Trade and Industry and the Treasury are paying particularly close attention to the banking sector and may request an OFT probe of it.

They are concerned at evidence that insufficient competition between banks is having a deleterious effect on the provision of finance for small businesses. There is also unease, based on a report by management consultants, McKinsey, that alleged sluggishness in the banking and telecommunication industries puts inadequate pressure on the UK software industry to compete on quality and price.

Meanwhile, following a six-month review of ways to boost research and development expenditure, Mr Brown will announce improved tax breaks for research carried out by hi-tech companies.

He will also publish the results of a consultation on ways to reduce car pollution.

Most companies 'expect economy to get worse'

By Kevin Brown, Industry Editor

More than 80 per cent of companies expect the economic environment to worsen next year, according to a survey released by the Confederation of British Industry on the eve of its annual conference in Birmingham, central England.

The survey results provide a gloomy backdrop for the conference, which will be dominated by demands for a further cut in interest rates and arguments about whether and when the UK should join the euro.

Sir Clive Thompson, the CBI president, said the government should help business prepare for membership by setting a date for British entry into the single currency, subject to the five economic tests set by Gordon Brown, the chancellor.

Sir Clive's comments appeared to harden existing CBI policy, which is that the UK should join the euro when it is in the economic interests of the country. Business critics of the single currency are expected to seize on his remarks when the issue is debated today.

The CBI survey found that 83 per cent of companies that responded thought the economy would worsen in 1999, with only 2 per cent expecting an improvement.

More than 50 per cent called for a reduction in interest rates of 0.5 percentage points when the Bank of England's monetary policy committee meets this week. A further 42 per cent wanted a cut of 0.25 percentage points. But the survey also showed 52 per cent of businesses were more optimistic about their own prospects, echoing similar results in a Financial Times survey published in September.

Adair Turner, director general of the CBI, said the results suggested that many business people had been alarmed by talk of a global meltdown. "This is clearly a difficult time for some key sectors, and we do expect a sharp economic slowdown. But our best judgment is that the slowdown will not turn into negative growth," he said. "We must avoid talking ourselves down further and allowing a UK recession to become a self-fulfilling prophesy."

The CBI said it had told the government in its pre-Budget submission to avoid "panic" measures to prevent the budget deficit rising as the automatic stabilisers – mainly higher benefit payments – come into play.

It also called for "radical" measures to cut the long-term burden of health and education spending, and launched a campaign against the growing burden of UK and European Union business regulation.

Adair Turner, CBI director-general, tries out a thermal imager at a conference exhibition Reuters

Sony in talks over film studio in Scotland

By Cathy Newman in London

Sony Corporation, the Japanese consumer electronics group, is in talks with Sean Connery, the actor, about investing in a film studio in Edinburgh, the capital of Scotland.

Sony, owner of the film studio Sony Pictures, has held detailed discussions with Mr Connery, local businesspeople and financiers. Scottish Screen, the government agency for film in Scotland, is hoping the project could be under way by the time a Scottish parliament is established. Between £10m ($17m) and £20m could be spent on the building, with up to £40m invested in 20 films over five years. If Sony were to go ahead with its share of the investment, it would be a welcome boost for the domestic film industry, particularly as some US studios are resisting shooting big-budget films in the UK because of the strength of the pound.

John Archer, chief executive of Scottish Screen, confirmed Sony's possible involvement yesterday. He said: "We've been pursuing a number of options, but private funding coming into this means it stands an even better chance of success."

Scottish Screen contacted a number of US studios about funding, but only Sony expressed an interest. Sony already has links with Mr Connery through a long-term deal with his film production company.

Scotland is a popular location for film makers. However, many films have to move to English studios to complete their production and post-production work because of a lack of facilities in Scotland.

Sony could not be contacted for comment. The company last week reported worse than expected results, with sales in its film division falling 10 per cent.

NEWS DIGEST

POLITICS

Liberal Democrats back down on vote reform

The opposition Liberal Democrat party yesterday backed down over the timing of electoral reform when Paddy Ashdown, its leader, said he would accept a referendum on the issue after the next general election.

In a move that will be seen as a significant shift in his position and that could court criticism from party activists concerned about co-operating with the governing Labour party, Mr Ashdown said if the government postponed the vote until the next parliament for good reasons, "so be it".

The Liberal Democrats had previously insisted that the referendum on election reform – expected to pitch existing first-past-the-post arrangements against the "alternative top-up" system proposed this week by the Jenkins commission – had to take place in this parliament. **Liam Halligan, London**

DEFENCE

Minister plans shake-up

The Ministry of Defence is to attempt far-reaching changes in its internal culture as it seeks to introduce greater efficiency in spending its £9bn ($15bn) annual budget for equipment purchases.

George Robertson, the defence secretary, plans to spell out the effects of his "smart procurement" initiative in a speech to the Confederation of British Industry annual conference today in Birmingham, central England.

In remarks likely to cause unease among thousands of civil servants, he is expected to refer to the difficulty of "teaching a bureaucratic elephant to dance" – a reference to a book by James A. Belasco, the US author, on managing change.

McKinsey, the management consultant, carried out an initial study of procurement practices for the MoD earlier this year. MoD personnel working on 10 pilot projects will shortly undertake a training course with McKinsey, during which they will be encouraged to go "back to basics" and organise programmes in radically different ways. **Alexander Nicoll, London**

FINANCIAL REGULATION

Fines system faces review

The Personal Investment Authority, the watchdog for the private investor, is considering far-reaching changes to the way it punishes companies after criticism that fines alone are ineffective and potentially unfair. Its review could see it taking action against individual directors for the first time, through "naming and shaming", fines and even expulsion from the industry. It could also see the regulator forcing companies to take out prominent advertisements in newspapers, in which they are made to confess their wrongdoings. The deliberations follow criticism from consumer groups that fines are not a big enough deterrent and that they hit policyholders directly in cases when the payment is made from policyholder rather than shareholder funds. **Christopher Brown-Humes, London**

HENDERSON INVESTORS

Firm suspends manager

Henderson Investors, the fund manager, has suspended one of its managers on full pay after uncovering "irregularities" in some of its investment accounts. It has launched an investigation into the affair and informed the police and regulatory authorities.

It is understood the amount involved is little more than £10,000. The apparent discrepancies have been uncovered in staff rather than customer accounts. These are accounts used by staff to buy and sell shares.

Henderson said: "An individual has been suspended on full pay pending an investigation of irregularities in staff accounts. There is no evidence at the moment that anything other staff accounts are involved." The company said it had uncovered the alleged irregularities last week, and immediately informed the Investment Management Regulatory Organisation and the police.

Henderson, which has £40bn under management, was acquired by Australian insurer AMP earlier this year. **Christopher Brown-Humes, London**

FINANCIAL TIMES MONDAY NOVEMBER 2 1998

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Abbey Natl Funding 5.8% Dual Currency GND 2000 Y2,416.66
Do 6.1% Dual GND 2000 Y2,541.66
Ameritech $0.30
Anglo American Indl 5¾% Cm 1st Pref R0.05625
Asda Property 0.95p
Assoc British Ports 4.5p
AutoLogic 2.75p
Automotive Precision 0.3p
Beattie (J) 3p
Bell Atlantic $0.385
Bentalls 0.7p
Black (P) 5.25p
Britannia 0.6p
British Petroleum 6p
Do ADR $0.7312
Do ADS $0.7312
Cookson 7% Cv Bds 2004 £35
CrestaCare 0.33p
Croda Intl 3.55p
Daniels (S) 0.4p
Dawsongroup 2.5p
Edinburgh Fund Managers 8p
Enterprise Oil 6.9p
Filtronic 1.35p
Foreign & Colonial Pacific 0.8p
Gallaher 6.8p
Gowrings 1.25p
Grantchester Finance £3.6875
Highcroft Inv 2.5p
Hokkaido Electric Power 6⅛% Nts 2000 $612.50
Holmes Place 1.5p
Huntleigh Technology 1.55p
Jackson 1.5p
Keihin Electric Express 6.65% Bds 1999 Y665,000
LASMO Units 1.8407p
Legal & General 4.56p
Liberty Intl B 6% Pref 3p
Macro 4 15.9p
Moorepay 1.6p
Moorfield Estates 0.275p
Northern Recruitment 1.2p
NWF 5.5p
Nycomed Amersham 1.8p
Ocean Group 5.85p
Pentland 1.54p
Pittards 1p
Prudential Finance 8¼% $82.50
Sanderson Bramall Motor 2.12p
Seiyu 4.20% Bds 2000 Y420,000
Shell 5.3p
Singer & Friedlander 2.35p
Do 8½% Cv Sub Uns Ln 2009/14 £4.25
Stagecoach 7⅝% Bds 2007 £76.25
Steel Authority of India Global Depsty $0.0359
Syndicate Capital Tst 10.1p
Taylor Woodrow 1.5p
Tohoku Electric Power 6½% Bds 2002 $65
Travis Perkins 3.8p
TR European Growth 0.25p
Tyco Intl $0.025
ZENECA 14p

■ TOMORROW
Abbey Natl Treasury 8% GND 1998 Lire400,000
Anite 0.25p
Cattles 3.9p
Fleming Overseas Inv 3p
Lukinter Finance 1% High Yld Prem Bds 2003 $5
Royal Doulton 2.3p
Ugland Intl 2.04p

■ WEDNESDAY NOVEMBER 4
Abbey Natl Treasury 8¼% Nts 1998 £825
BSkyB 3.25p
Do ADR $0.398
Compel 4.2p
DCS 1.25p
Fisons 8% Bds 2003
Hay (N) 0.8p
Ivory & Sime Optimum Inc 1.85p
New Zealand 11¼% 2008 £281.25
Pacific Dunlop A$0.07
Quebec 8⅝% Nts Nov 4 2011 £86.25
Sunderland 3.2p
Thorpe (FW) 3.75p
Usher (F) 7p

■ THURSDAY NOVEMBER 5
Abbey Natl Treasury 7⅝% GND 2001 Lire381,250
Birse 0.5p
First Choice 1p
Forth Ports 5p
Framlington Dual Trust 2.05p
Logica 7.25p
New York FRE 1998-02 $120.32
Pemberstone 1.21p
Quester VCT 2 1p
Quicks 3.5p
Rentokil Initial 1.07p
Steel Burrill Jones 0.75p

■ FRIDAY NOVEMBER 6
Abbott 1p
Ben Nevis One Class a FRN 2030 $3755.11
Do Class B FRN 2030 $4,008.09
Blagden Inds 1.2p
City Technology 5.27p
Courtaulds 6% Cm 2nd Prf 2.1p
CRH IR4p
Dewhirst 1.45p
Electronics Boutique 0.18p
Henderson Euro Trust 1.5p
Do Units 1.5p
Johnstone Press 1.15p
Lionheart 0.1p
Mayborn 1.7p
Oasis Stores 2.85p
Shallbans 1.6p
Sharpe & Fisher 2.3p
Shell ADR $0.5427
Slug & Lettuce 3.35p
Treasury 7% 2001 £3.50
United Assurance 8p
Vodafone 7⅝% Nts 2001 £78.75
Wassall 2.3p
Weir 2.75p
Wellington Underwriting 1p
Whitbread 7¼% Uns Ln 1995/99 £3.625

■ SATURDAY NOVEMBER 7
Bristol & West 13⅜% Sub Bds £66.875

■ SUNDAY NOVEMBER 8
CMIC Finance & Secs 3½% Cv Bds 2003 $35

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Gartmore Scotland Inv, Charles Oakley House, 125, West Regent Street, Glasgow, 12.00
BOARD MEETINGS:
Finals:
AB Foods
Stratagem
Interims:
BBA
Prowting
Style Hldgs

■ TOMORROW
COMPANY MEETINGS:
Henderson Eurotrust, 3, Finsbury Avenue, EC3, 12.00
ICM, The Cedar Court Hotel, Denby Dale Road, Calder Grove, Wakefield, West Yorks, 11.30
Jos Holdings, 20, Fenchurch Street, EC3, 12.30
Northamber, 1, Lion Park Avenue, Chessington, Surrey, 12.00
Pembertons, Benfield Grieg Group, 55, Bishopsgate, London, EC2, 10.00
BOARD MEETINGS:
Final:
Pressac
Interims:
Marks & Spencer
Shanks & McEwan

■ WEDNESDAY NOVEMBER 4
COMPANY MEETINGS:
Community Hospitals, Insurance Hall, 20, Aldermanbury, EC2, 12.00
Framlington Dual Trust, 155, Bishopsgate, EC2, 12.30
Isotron, Howard Hotel, Temple Place, WC2, 12.00
Logica, London Underwriting Centre, 3, Minster Court, Mincing Lane, EC3, 2.30
Thorntons, The Assembly Rooms, Derby, 11.00
BOARD MEETINGS:
Final:
MMT Computing
Interims:
Old English Pub
Scottish Power
Seton Scholl Healthcare
Shiloh
Westbury

■ THURSDAY NOVEMBER 5
COMPANY MEETINGS:
Perpetual Japanese Invs, The Old Rectory, 17, Thameside, Henly-on-Thames, Oxfordshire, 12.15
Wainhomes, Rowton Hall Hotel, Rowton Hall, Chester, 11.00
BOARD MEETINGS:
Finals:
Estates & Agency
Galen Hldgs
Smart (J)
Interims:
Boots
Railtrack

■ FRIDAY NOVEMBER 6
COMPANY MEETING:
F & C Latin American Invs, Exchange House, Primrose Street, EC2, 12.00

Company meetings are annual general meetings unless otherwise stated. Reports and accounts are not available until approximately six weeks after the board meeting to approve the preliminary results. This list is not comprehensive since companies are not obliged to notify the Stock Exchange of imminent announcements.

CONFERENCES, VENUES AND COURSES

CONFERENCES

NOVEMBER 10 - 12
Frank J. Fabozzi, Inc. /
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Seventh City of London Central Banking Conference
RISK 1999-2000 Fundamental issues and the immediate issues
RESERVE MANAGEMENT: Euro, emerging markets, gold
LATIN AMERICA & CARIBBEAN: Contagion or Containment?
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NOVEMBER 12
Eurotrade - The Single Currency Practical Impact on UK Industry
Confirmed speakers include: Rt. Hon. Francis Maude MP; Ian Campbell - Institute of Export; James Provan MEP; John Mescrop - HMC&F.
Contact: Beryl Coxon
Tel: 01403 268251
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www.icom.co.uk/wdr
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November 12 - 13
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January 1st 1999 will be 'e' Day. What new opportunities for fraud and 'euro' financial crime will be created, and how can you protect against them?
At the only event to address this threat before the launch of the euro, these issues will be addressed by leading institutions, corporates and banks, including the IMF EU Presidency, EC, European System of Central Bank, EBRD, UCLAF, Europol, Citibank, Barclays, KPMG, Visa, American Express, IBM, Allianz, Axa among many others.
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www.financialfraud.com
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Palais des Congrès, **Brussels**

November [illegible]
The Future of Transportation Fuel Quality in Europe
This major international Conference will bring together representatives from the European Commission, UK Government, the oil and automotive industries, environmentalists and academia to present their views on current and future legislation, the inter-relation between automotive vehicles and fuels and their impact on the environment, and the implications for the European refining industry.
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Fax: +44 (0)171 255 1472
IP THE INSTITUTE OF PETROLEUM
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NOVEMBER 17
Development Initiatives in Southern Africa
The Spatial Development Initiative programme is a key part of South Africa's investment strategy, aiming to boost investment, unlock inherent economic potential and kickstart new developments. This one-day FT seminar will be the first opportunity of reviewing the Spatial Development Initiative programme in-depth. Speakers include: The Rt Hon Peter Mandelson MP, Mr Alec Erwin, Minister of trade and Industry, South Africa and Mr Rob Barbour, Chairman, Mozal Project.
Tel: 0171 873 3162 Fax: 0171 873 3067
E-mail: catherine.macsweeney@ft.com
LONDON

NOVEMBER 23 & 24
FT Moroccan Telecommunications
This major FT Conference will review telecoms liberalisation in Morocco and examine new opportunities for foreign business and investment as the market opens up. Supported by the Moroccan Government, speakers include: HE Mr Abderrahmane El-Youssoufi, Prime Minister of Morocco; Mr Mostafa Terrab, ANRT and Mr Ignacio de Benito Secades, Telefonica Intercontinental.
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E-mail: catherine.macsweeney@ft.com
www.ftconferences.com
MARRAKESH

NOVEMBER 24
Technological Change in Retail Banking
SAP's impact on Nat West's business efficiency. Chris Thomas, Head of Accounting Systems & Lionel Bell, Program Co-ordinator. Professor Tony *Eccles, Cranfield, - the paradoxes of* providing better information on management style.
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Helen, AMED
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NOVEMBER 25
Using IT for Business Benefit
A breakfast seminar examining the importance of IT to the financial services industry. The seminar will explore new delivery channels now being used by this rapidly diversifying sector; including internet banking, call centres, home banking and digital TV. The event includes an open forum chaired by Paul Taylor, IT Correspondent, Financial Times.
Tel: 0171 873 3162
Fax: 0171 873 3067
E-mail: catherine.macsweeney@ft.com
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DECEMBER 1 & 2
18th FT World Telecommunications
Competition and convergence will be the two main themes of the 1998 FT World Telecoms Conference. Speakers include Sir Iain Vallance, Chairman, BT plc; Mr Bert C Roberts Jnr, Chairman, MCI WorldCom; Mr Gary Forsee, President and CEO, Global One SA; Mr Daniel E Somers, Senior Executive Vice President & Chief Financial Officer, AT&T and Mr Javier Revuelta, Vice-Chairman, Telefonica.
Enquiries: Joanna Edwards
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E-mail: joanna.edwards@ft.com
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DECEMBER 2 - 4
Venture Forum Europe '98
Arranged by FT Conferences and Venture Economics, the 9th annual Venture Forum Europe will provide industry leaders with an important opportunity to increase their understanding of the European venture capital marketplace.
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Fax: 0171 873 3067
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DECEMBER 7 & 8
The 17th FT World Pulp and Paper Conference
Distinguished speakers include Dr Claes Dahlback, President and CEO, Investor AB and Chairman, STORA AB; Mr Martin Granholm, Executive Vice President, UPM-Kymmene Group and Mr John F McGovern, Executive Vice President and Chief Financial Office, Georgia-Pacific Corporation.
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Fax: +44 171 873 30676
Email: joanna.edwards@ft.com
Web: www.ftconferences.com
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DECEMBER 8
Regional Development Agencies: Investment Structures for Growth
National conference to examine the development of investment strategies and institutional vehicles for regional development. Speakers include: Richard Caborn MP, Martin Gagen (3i), *John Bridge (Northern Development* Company), Dr Kevin Bond (Yorkshire Water) and Dr Keith Haarhoff (Corporation of London).
Contact: Neil Stewart Associates
Tel: 0171 240 9393
Fax: 0171 240 8833
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Communicating Performance
Launch of Research Findings: Are claims in FTSE 100 annual reports backed by meaningful data? Is there sufficient focus on the future?
Lessons from USA: Chris Wye, co-author of the US 'Government and Performance Review Act'.
Shareholder Value: Experiment with software tool which helps identify tactics to build shareholder value.
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NOVEMBER 16 - 20
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INSIDE TRACK

PROFILE KEIJI TACHIKAWA

A mobile salaryman full of surprises

The president of NTT DoCoMo, the world's largest mobile telecoms group, is a Japanese chief executive with singular differences, says **Paul Abrahams**

Keiji Tachikawa's career didn't quite turn out as he had expected. On graduating from Tokyo University in 1962 with a degree in electrical engineering, he chose to join NTT, the sleepy, state-owned telecoms company, because he thought the work would be a pushover. "I wanted time to spend with my family and do my hobbies," he says.

But instead of enjoying a quiet career in the backwaters of NTT's research labs, Mr Tachikawa rocketed up the organisation. He is now president of NTT DoCoMo, the world's largest mobile telecoms group which was floated on the Tokyo stock exchange last month. It is not exactly the definition of a laid-back job.

In recent months Mr Tachikawa has hardly seen his family, let alone had time for hobbies. The roadshow for DoCoMo's initial public offering kept him on the move. But his endeavours were not in vain. Last month, the issue became the largest IPO in dollar terms, raising $18.4bn (£10.8bn). The achievement was all the more remarkable given the gloomy state of world stock markets. DoCoMo's successful flotation, advisers say, owed much to its dynamic 59-year-old president.

Part of the reason Mr Tachikawa went down so well with international investors was his extensive American experience. He first visited the US in 1968, when he worked at Nasa's satellite operations for three months. "When I arrived and I saw all the technology, my first thought was that we had made a big mistake fighting against the US," he says. Such frankness about the second world war is unusual for a Japanese, but it was a much-appreciated quality at his countless presentations to international investors.

Advisers to the IPO say Mr Tachikawa surprised his audience at times by being even more open than a typical western chief executive. He was candid about DoCoMo's potential problems, including the danger that its wireless network might become over-congested; that competitors could come up with technology that made his equipment outdated; and that Japanese people were increasingly unwilling to allow base stations to be located near their homes because of safety concerns. The installation of more than 200 base stations had to be postponed last year.

Another factor which helped him on the roadshow was his MBA from the Massachusetts Institute of Technology, obtained during a second sojourn in the US. Mr Tachikawa was the first NTT employee to study for an American MBA. He says the qualification was useful when meeting international investors.

Foreigners who do business with Japan have high hopes that a new generation of Japanese managers like Mr Tachikawa, with foreign experience and even MBAs, might instil in their companies western standards of financial discipline. A frequently heard criticism of Japanese companies is their tendency to over-invest, regardless of the cost of capital or of the need to make a return on it.

Mr Tachikawa admits that the shift from negotiating NTT's capital spending budget with government bureaucrats to studying for an MBA in America, with its emphasis on discounted cash-flow techniques and net present values, was a huge cultural leap.

And yet in some respects the impact of his American experience appears limited. Dressed in a light grey suit, the company badge attached to his lapel, Mr Tachikawa comes across as the typical Japanese salaryman. Although he understands English well, he prefers to talk through an interpreter.

He says he doubts whether all western business models can be applied to Japanese industry.

"I learnt a lot of new financial analysis techniques at MIT," he says, cautiously. "But I have the impression that they should not be used directly in Japan. Perhaps they should be adapted for the Japanese context."

It is a disappointing answer, because DoCoMo's stable of businesses includes some duds. The company has recently paid NTT about Y220bn (£1.1bn) to take full control of its personal handyphone system business (PHS) – a business that has never made a profit, and which most analysts believe never will.

Mr Tachikawa says he is committed to PHS, not least because he was instrumental in the development of the technology in the early 1990s. PHS has a smaller range than cellular technology, and is supposed to be cheaper, but it has not been a commercial success because transmission quality is poor.

Following the IPO, DoCoMo can perhaps afford to keep this laggard because the company has virtually no debt and the rest of the group is profitable. However, there can be no doubt that an executive with greater devotion to return on capital would have refused to buy the business.

In any case, Mr Tachikawa has plans for PHS. His engineering background becomes apparent as he enthuses about the opportunities for wireless technology in the years ahead.

"Let's imagine we are in the year 2005," he says. "There will be 120m people in Japan, and we can provide them with mobile voice telephony with our cellular system. We can also use that system to provide interactive car navigation systems for the 100m vehicles in Japan.

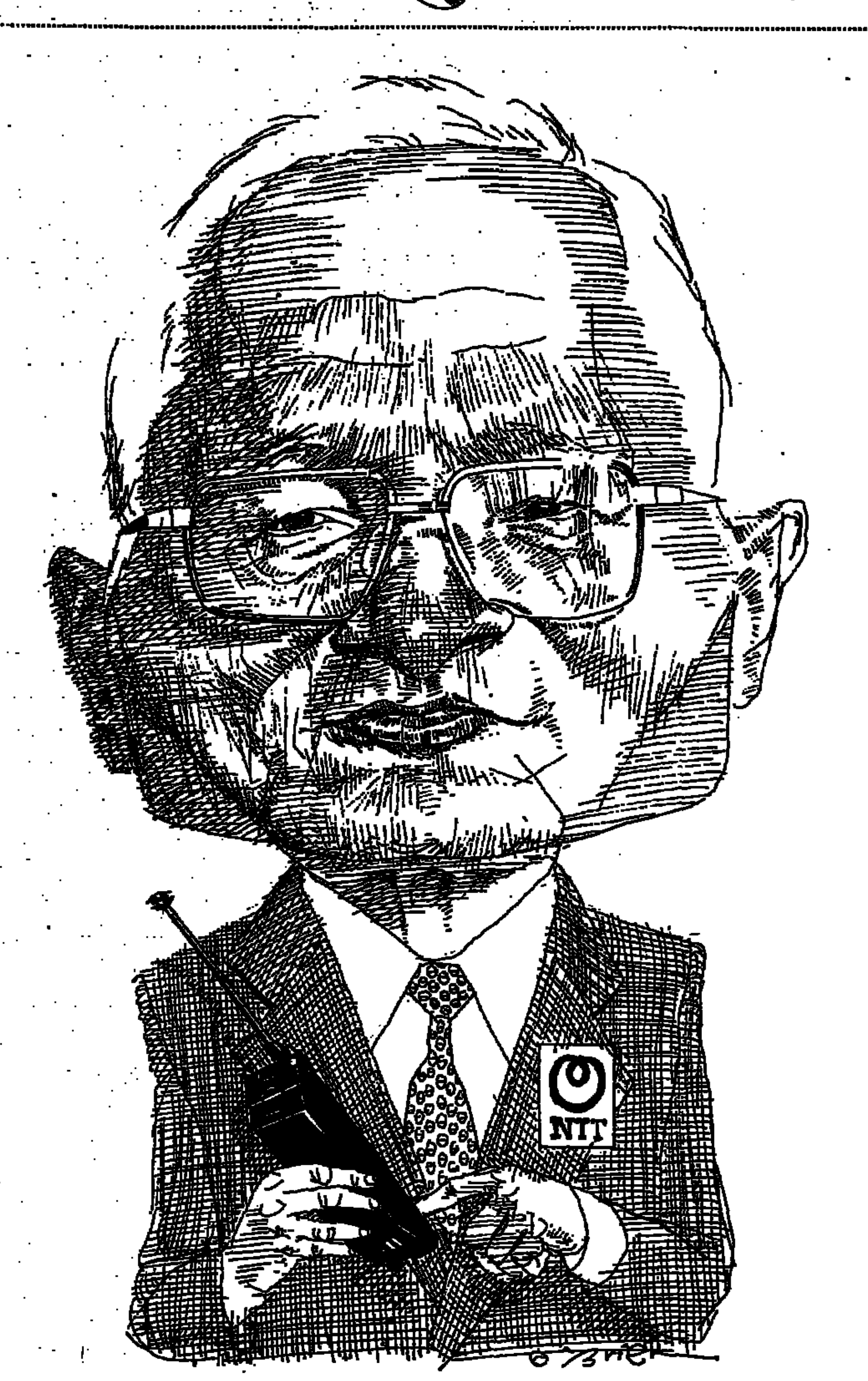
"There will be 50m portable personal computers by then. Our new technology, W-CDMA, will provide mobile television and internet images on the move. For those needing only text, our PHS system will do. Indeed, our strategy for PHS will be turned by 180 degrees. It will no longer be aimed at voice traffic but data. We will be able to use it for tracking bicycles – almost the only thing apart from umbrellas that are stolen in Japan. PHS can be used to track the country's 30m pets, or the 6m motorcycles."

It is as well that the future market is potentially so large, because the investments during the next few years will also be huge. DoCoMo plans to invest Y2,000bn in W-CDMA and about Y840bn a year expanding its cellular network.

With the group's cash flow having grown at a compound rate of 40 per cent during the past three years, Mr Tachikawa's ambitions are perhaps justified. But his strategy still smacks of the traditional Japanese approach of expanding sales without much concern for return on capital.

As for his own future, Mr Tachikawa is looking forward, eventually, to retirement, when he will finally be able to spend more time with his family and on his hobbies. He reckons he has played about 800 games of golf in his lifetime. His target is 1,000. "At 20 games a year, I will need another 10 years," he says, not without relish.

His golf handicap is a creditable but far from brilliant 19. At least it reflects Mr Tachikawa's dedication to his work. Companies whose chief executives have single-figure golf handicaps are rarely stellar performers themselves.



'I learnt a lot of new financial analysis techniques at MIT. But they should not be used directly in Japan'

Essential Guide to Keiji Tachikawa

Education and experience: Tachikawa graduated in technology at Japan's elite seat of higher education, the University of Tokyo, and then in 1962 joined NTT, the state-owned telecoms company.

His first foreign trip was in 1968, when he was sent to Nasa to collaborate on satellite systems. He returned to the US seven years later with his family to work in New York and then won a scholarship to do an MBA at MIT, the first employee of NTT to do an American MBA.

His thesis was a comparison of capital-raising by NTT and AT&T. He gained a doctorate in engineering in 1982 from the University of Tokyo.

Career: Tachikawa is a true company man, having only ever worked for the one organisation – even if DoCoMo is now separately quoted, it is still 67 per cent owned by NTT. He moved up through the ranks until in 1996 he became senior executive vice president at NTT Mobile Communications Network.

The company's slogan is 'DO COmmunications over the MObile Network' – hence DoCoMo, although the word also means "everywhere" in Japanese. Tachikawa became company president this year.

Motto: "When you think be *drastic. When you act, be* steady."

Interests: He is a fan of the Yomiuri Giants, the most popular and least interesting baseball team in Japan, but in the US he supported the New York Mets. His goal is to play 1,000 games of golf. He has achieved *800 to date.*

ENVIRONMENT VIEWPOINT MICHAEL GRUBB

Blocks on the road to a climate deal

The Kyoto protocol was a remarkable achievement but the devil may prove to be in the detail

Negotiators from around the world meet today in Buenos Aires to start work on implementing the Kyoto protocol on climate change. The protocol, agreed after exhaustive negotiations last December, is a unique international agreement, most of all in its wholesale introduction of international "market instruments", such as emissions trading as a means of controlling greenhouse gases.

The protocol was also remarkable in that it set legally binding constraints on greenhouse gas emissions in the face of powerful lobbying and deep international divisions.

Vital in making the agreement acceptable to some countries – *most importantly to the US* – were provisions to allow flexibility about how and where the stipulated emission reductions are carried out.

For example, reforestation and other activities that absorb CO_2 – "sinks" – may be offset against emission reductions. Another provision allows industrialised countries to gain emission credits by investing in emission-reducing projects in developing countries through a "clean development mechanism".

Most contentious of all, the protocol says the industrialised countries may trade their emission commitments, though details have yet to be negotiated. The Buenos Aires conference will set about defining rules and procedures for implementing emissions trading and other flexible mechanisms.

The ostensible aim of these mechanisms is to improve the efficiency with which the Kyoto commitments are implemented: since it does not matter to the climate where emissions occur, allowing international flexibility – in effect, establishing a market for exchange of commitments – should reduce the cost of meeting given goals.

Unfortunately, the agreement as it emerged from the political heat of Kyoto, leaves so much open that the market mechanisms could easily be corrupted and abused.

Some of the east European countries whose emissions had collapsed after 1990 – principally Russia and the Ukraine – argued that their emissions might rise sharply again. They insisted on an allowance to return their emissions to 1990 levels. The economic malaise in these countries makes it increasingly obvious that this will not happen, leaving them with a large surplus of emission allowances, dubbed "hot air" by the EU.

Allowing them to transfer this surplus through the trading mechanism will enable OECD countries to emit far more than their initial allowance. This has nothing to do with efficiency – it would constitute an abuse of the system and undermine the legitimacy of emissions trading.

It would also set a dangerous precedent, by suggesting that it pays to negotiate surplus emission allowances and then to profit from the windfall.

The Buenos Aires conference needs to address situations in which a country's emissions turn out to be far lower than initially allocated because of economic rather than climate-related changes.

Second, full use of all the flexibilities for which countries are pressing could render the Kyoto commitments too weak to solve the problem. If the commitments can be met principally by trading surplus allowances, planting forests in developing countries and reducing waste in the least efficient economies, there will not be sufficient incentives to develop processes, technologies and habits for tackling climate change in the long term.

It would also fail to turn investment away from the development of extensive new carbon-based resources and technologies.

Negotiations should consider ways managing the flexibility mechanisms so as to ensure adequate market incentives.

Third, given the absence of credible international enforcement, international emissions trading must carry in-built incentives.

The rules governing trading should establish that emission allowances obtained from countries that do not comply with the protocol's provisions are rendered invalid. Similar principles could extend to project-level mechanisms.

The value of allowances or credits from countries or projects that might not comply with the rules would thereby be degraded.

Finally, the protocol's clean development mechanism is crucial to the success of the Kyoto protocol but it is also its most dangerous innovation. It is wide open to corruption if adequate rules and an independent overview are not developed. These issues cannot be resolved by next year, as proposed; a longer negotiating track is required.

These discussions need to be placed in the context of long-term goals. As a guideline, the international community should aim to preserve the possibility of stabilising the atmosphere to within twice the pre-industrial concentrations of the gases.

The Kyoto targets are barely adequate to get us on track for this, and excessive use or abuse of the protocol's flexibilities would render such a goal impossible.

Implementing Kyoto without reference to any long-term goal is like printing money while ignoring inflation. That is the trap that must be avoided by the negotiations likely to be launched at Buenos Aires.

Michael Grubb is an Associate Fellow at the Energy and Environmental Programme at the Royal Institute of International Affairs, and a visiting professor at the Geneva International Academy of Environment.

LUCY KELLAWAY

Hard truths about sofas

The fashion for squashy corporate furniture rests on a complete misunderstanding about what office seating is meant to do

Sofas have two advantages over chairs. The first is that they are better for lounging about in. The second advantage you can probably work out for yourself.

Neither one applies to the workplace. Yet the sofa appears to have become a must-have item for the modern corporation.

At last week's UK personnel managers' conference in Harrogate the sofa was touted as part of the new flexible office of the future. The offices of Scottish Enterprise were held up as state of the art: staff pop into the office for a "touchdown", they plug in their laptops, have a quick stand-up meeting in the cafe, or they can book a few sofas and conduct the meeting on them.

The sofa is so popular because it is taken to be a democratic piece of furniture. Now that the boss is meant to be a team player, it does not look right if he engages with the world from behind a mighty desk. Organisations are expected to be friendly and approachable, and what is more friendly and approachable than a squashy sofa or an easy chair?

You do not need to look far to find evidence of this fashion. The platform at the Conservative Party conference was lined with Ikea armchairs; at British Airways the chief executive's office has no desk but it does have a three-piece suite, and even at the FT the sofas *have* started arriving. Last month the editor's big desk was carried out of the corner office and some sofas were carried in to transform the room into a thoroughly up-to-date meeting space.

It is all a terrible mistake. To conduct any kind of meeting on soft furniture is a disaster. It encourages people to take their time. And sloppy seating cannot encourage sharp thought. Moreover any sofa – especially one that seats more than two – makes it impossible to look at the person you are supposed to be speaking to without swivelling round and half falling off the thing. Sofas takes up a lot of space, are more expensive than ordinary chairs, and fool nobody. A big ego does not become a team player in view of what he is sitting on.

Office furniture should be comfortable and practical, which means sitting upright at 90 degrees on your own chair and facing the person you are talking to.

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Still on the subject of bosses in the new egalitarian age, consider the case of Keith Todd, chief executive of ICL. Mr Todd is the perfect modern manager. He's a self-effacing kind of a guy who simply does not possess an ego. We know this because he told us so in the pages of the FT last week. "I probably am unconventional," he confessed. "I don't have an ego." It was just as well that he spelt it out, otherwise readers might have drawn a different conclusion. He had just said that the key to understanding the way he thought and worked was his "laser-beam focus".

The other respect in which he is typical of the new chief exec is in his attitude towards firing people. Because bosses have to do so much sacking these days there is a tendency for them to convince themselves that taking away people's jobs is not only natural, but that it is actually a good thing.

"The changes at ICL have involved 'letting go' 1,000 people across Europe. This does impact," Mr Todd said. Really? Does he mean that it 'impacts' on him? Apparently not. "I've never found it a problem dealing with people about realities," he went on. Well, bully for him. Presumably it 'impacts' on those who get the chop, but according to Mr Todd that impact is thoroughly positive. "Sometimes the best thing for the individual as well as the company is a role elsewhere," he assured us.

This is patronising, paternalistic nonsense. Possibly some of the 1,000 people will look back at their days at ICL and feel that being "let go" was the best thing that ever happened to them. But that is a judgment for them to make, not one their former boss should make on their behalf.

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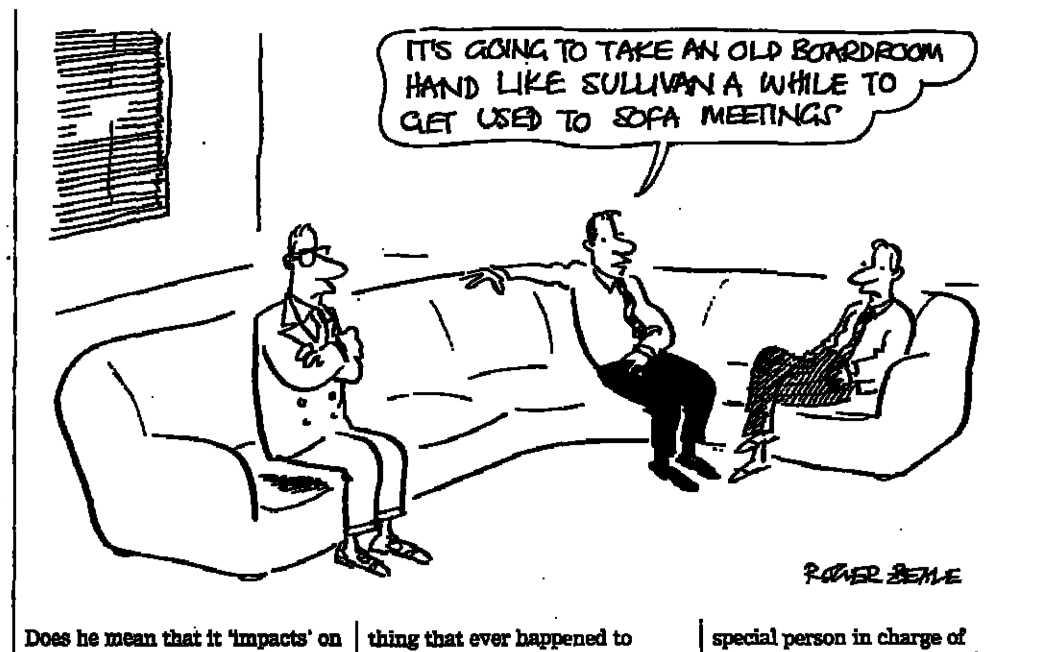
Job title of the week: Corporate Diversity Steward. This is a full time post at Aetna Reirement Services, and the US company is sufficiently proud of employing someone with that title that it has put out a press release to tell us all about it.

The fact that there should be a special person in charge of diversity comes as no surprise. Diversity is a big issue in the US, and the way that corporations deal with all big issues these days is to create a new post, and hey presto! to consider the matter dealt with. But to call this person a *steward*? Surely stewards are people who bring you your gin and tonic on aeroplanes.

I have just looked up the word in the dictionary and now I understand: a steward can also be an official helping to organise a race meeting.



MANAGEMENT TELEWORKING

Caught by a flash of inspiration

But for many, the office is not the best place to generate ideas, says **Alison Maitland**

If you're looking for that flash of inspiration, then get out of the office. Managers are most likely to have their bright ideas at home, while commuting, or relaxing on the beach or golf course, according to a survey today.

Among the least likely places for brainwaves are the "brainstorming" sessions designed to generate new ideas. Only 7 per cent of managers say they have their most creative thoughts in meetings, compared with nearly 12 per cent who put on their thinking caps in the bath or shower.

The survey of 410 managers is published at the start of the fifth annual European Telework Week, initiated by the European Commission to promote technology for flexible working arrangements.

More than 5m European Union citizens are estimated to work away from the office on any day, and the number of teleworkers is forecast to reach 10m by 2000.

"Creativity benefits from periods away from the constraints of the office," says Neil McLocklin, head of the Workstyle Consultancy Group at British Telecommunications, which commissioned the UK survey with the journal Management Today.

"We're seeing more and more organisations adopt flexible working practices, partly to get their employees to manage their own workloads and be more productive, but also to allow them valuable thinking time."

While 52 per cent of respondents favoured home, commuting or leisure time for their cleverest thoughts, only 15 per cent opted for the office. The survey does not reveal how many of these had to slip into the quiet of the loo or library for inspiration.

But it does show that managers over 55 are more likely than younger ones to have their best ideas in meetings. Older managers are less adapted to using electronic media to test ideas and more likely to believe that the office means work and home means switching off, says Peter Thomson, chairman of the Future Work Forum at the UK's Henley Management College.

"The younger generation has a more flexible attitude to when and where they work."

Gender differences show up as well. Eighty-two per cent of women claimed to be more productive working at home than in the office, against only 43 per cent of men.

That may be because traditional work patterns were built around a predominantly male workforce, says Mr Thomson. Women, juggling many responsibilities, are obliged to manage their time better, especially at home.

"I think there's still a macho culture saying that working at home is for namby-pambies and women who have to look after kids, while us real people have to come to work to get a job done."

That seems liable to change. Some 30 per cent of respondents said they worked from home at least once a week, and 77 per cent said they were able to e-mail their office from home.

If teleworking grows as forecast, might the office become the quiet place for creative thinking away from the distractions of work on the road or in the home?

"It's a possibility," says Jan Klinckenberg, human resources director of Interpolis, a Dutch insurance company that has instigated a revolution in its working practices.

At the Rabobank-owned company, no one has an individual desk, explains Mr Klinckenberg. Staff have portable "flexicases" containing their files, belongings and telephone set. Mail is picked up at a "mail wall". Office space is divided into meeting rooms, coffee corners, research areas and "cockpits" – tiny offices equipped with desk, chair and PC for intense work.

"Financial sector companies are mostly a bit old-fashioned and stuffy and not very co-operative with their customers. We wanted to change this culture rapidly," he says.

There are desks for only 80 per cent of the 1,500 staff who work in the new 20-storey building in Tilburg, compared with 120 per cent provision in the old Interpolis building. The calculation is that at any one time the rest of the staff will be visiting customers, teleworking, on holiday or off sick.

Most employees have responded to the changes enthusiastically, with only a handful leaving the company or taking sick leave, he says.

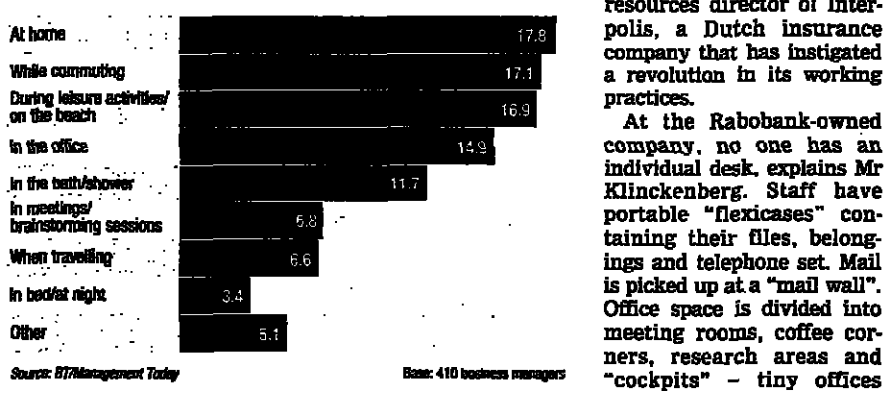
The next target is for half the workforce – which is expected to grow from 2,500 to 3,000 – to be working from home for part of each week within five years.

The move to teleworking, which will be optional, is driven by the need to recruit in a tight labour sector and by socio-economic change, says Mr Klinckenberg. The company is open from 7am to 9pm each day. "There are a lot of families where both the man and the woman are working. We think they should make their own decisions about when and where they work."

Bowler brainwave: good ideas often have a homely quality

Hulton Getty

Where do you have your best ideas?
Per cent



Source: BT/Management Today

Base: 410 business managers

JAMES BLITZ
FILE FROM ROME

A shadow across the political stage

The murder of Aldo Moro has proved to be a powerful symbol and particularly so during the current changes in government

Travelling to work I sometimes pass the spot in the centre of Rome where they found the body of Aldo Moro.

A little more than 20 years ago, on March 16 1978, the former prime minister and leader of the once mighty Christian Democratic party was kidnapped by the Red Brigades, a left-wing revolutionary group, on his way to parliament.

Fifty-five days later, in what, for many, was the most dramatic event of post-war Italian history, his bullet-ridden body was found in the boot of a red Renault in Rome's Via Caetani.

The murder took place in the thick of terrorism that hit Italy in the 1970s and 1980s – years that saw the assassination of leading figures in government, the military and judiciary by left-wing and right-wing extremists.

It is regarded as the most searing of those events. But what has been striking recently is how the shadow of the man still lies across the Italian political stage.

As Massimo D'Alema has gone about forming a new government – bringing together ex-communists and Christian Democrats – the life and death of Moro has been on the minds of the country's political leaders.

His assassination was significant because it came at what promised to be a turning-point for post-war Italy. In early 1978, the 62-year-old Christian Democrat leader was proposing that Italy's mighty communist party – the PCI – should be brought into "the area of government" for the first time.

Until then, Italy had been ruled by the centre-right Christian Democrats in alliances that excluded the communists, even though the PCI had a significant proportion of the popular vote.

A range of factors – including the determination of Washington that communists must never get their hands on an Italian government during the Cold War – ensured that Italy remained dominated by Christian Democracy.

Then in the spring of 1978, Moro and the PCI's leader, Enrico Berlinguer, looked set to agree a "historic compromise" that would create an administration still led by the Christian Democrats but which gave the communists a role in government.

Moro was on his way to parliament to announce this plan when he was brutally kidnapped and his five bodyguards murdered. Twenty years on, mystery still surrounds his abduction and subsequent assassination.

The Red Brigades had strong motives to kidnap Moro, sure enough. Their fear was that the entry of the main party of the left into government would undermine the aims and ideals of their own left-wing extremist movement.

> **'The assassination came at what promised to be a turning-point for post-war Italy'**

But many traditional Christian Democrats opposed to an alliance with the PCI also had much to gain from seeing Moro eliminated at such a critical moment.

Many say that the Christian Democrat government of the time – led by Giulio Andreotti – did not try hard enough to recapture Moro, failing even to negotiate with his captors in the first place. Others are convinced there was a conspiracy between the Red Brigades and the Christian Democrats, with ministers and terrorists engaged in a bloody plan to destroy Moro's compromise with Berlinguer.

Mr D'Alema has now fulfilled Moro's plan, except in reverse. He and his party are ex-communists who lead the government, but they rely for a majority on a small group of Christian Democrats, led by Francesco Cossiga, the former president of the Italian republic.

Mr D'Alema has drawn on what Moro was trying to achieve as a legitimisation of his government. The arrival of an ex-communist at the summit of political power has drawn sharp attacks from the Vatican and the Italian right in recent days.

But Mr D'Alema has been keen to remind the public that Moro started a process of reconciliation with Communism 20 years ago. "We are now at the latest stage of a long relationship between the left and the Catholic world."

Mr Cossiga's comments have been more striking. One of the leading Christian Democrats of the last quarter century, he was interior minister at the time of the Moro kidnapping, and resigned the day after the body was found.

The haunting experience of those days has left a deep psychological wound.

For Mr Cossiga, now 70, the formation of a government with Mr D'Alema appears to be cathartic after much personal pain. "For me, this is the definitive service to the nation, the completion of my duty towards the memory and political strategy of Aldo Moro," he says.

Some observers will be cynical about Mr Cossiga's reflections. In their view, his real aim in recreating the "historic compromise" is to turn back the clock to the days when Italian governments were created and destroyed by cosy deals in the palazzo, without political leaders ever having recourse to a general election and the will of the people.

But many Italians believe that leading Christian Democrats still harbour some terrible secrets about their role in the events of 1978.

Francesco Cossiga is a complex man. Only he can really know why he owes a debt to the memory of Aldo Moro.

TIM JACKSON
ON THE WEB

Hard sell for software

Digital River has recognised a business opportunity in tackling the problems which have limited the use of software download

Of all the business opportunities in electronic commerce, you would expect selling software for download over the web to be one of the earliest to succeed.

Software, after all, is a purely digital product that fits the demographics of internet users perfectly, and is sold by companies that understand the internet far better than book publishers or record labels.

Yet, according to Forrester Research, less than one-sixtieth of the $12bn-worth of software sold last year was distributed electronically. Digital River, a company that specialises in electronic software download, says there are three reasons for this limited penetration.

One is that software vendors, in a bid to avoid losing control of their intellectual property over the web, have usually required customers to telephone for a password before using a downloaded package – thus removing much of the attraction of the exercise.

Another is that vendors have not yet learned the merchandising skills on the web that are common to every manager of a computer superstore or mail-order cataloguer.

The third is bandwidth – nobody wants to download 200 megabytes of data off the web.

Digital River, which has been doing meaningful sales volumes only since last year, sees a business opportunity in solving the first two of these three problems.

Instead of becoming a reseller of software in its own right, it offers a set of tools for software publishers and retailers which makes it easier and quicker to sell downloaded software over the web.

The company offers a fully outsourced service. It provides web servers to store the program files that are the goods being sold; a set of front-end technologies, complete with payment mechanisms; and merchandising advice to help companies improve sales.

Better still, it can provide this package in a way that is completely hidden from the customer. So you can buy downloaded software from Corel, for instance, without realising the back end is handled by Digital River.

Corel apart, the company's biggest software brand is Lotus Development. Digital River also claims to do business with 1,600 publishers, up from 350 in January. It has also signed up 500 resellers, up from 50 in January, of whom the most prominent are Cyberian Outpost and Micro Warehouse. In total, the company holds an "inventory" of 125,000 applications – which it claims is the world's largest online database of software products.

The business proposition is straightforward. Unless they are big enough to negotiate better terms, software publishers have to pay Digital Diver 20 per cent of the receipts from buyers.

Resellers get a different deal. Digital River will set up a web store for them at zero upfront cost; in return, it collects 85 per cent of the total revenues, leaving the reseller with 15 per cent of the take for essentially doing nothing other than providing a home-page link.

This second business model, which a recent statutory filing at the SEC revealed accounted for only 5 per cent of revenues in the first quarter of 1998, is a neat twist on *Amazon.com's* associates programme.

Web sites that point to Amazon get a commission on sales they generate. Digital River turns that model on its head by allowing the associate to pose as the principal in the transaction. (Customers will realise who they are really doing business with, however, when the credit-card statement arrives).

But the company can add useful value to both sets of clients – largely by applying its experience in laying out web pages and in the electronic merchandising of products. Using Corel as a case study, it claims that Corel switched to outsourcing its download sales after a year of running the operation in-house, and saw a 450 per cent sales increase in less than a year after moving to Digital River.

The company can do far less about the third problem – the high price and limited availability of internet bandwidth. Digital River says the average program the company offers is around 20MB in size which takes around 80 minutes to download using a 56K modem.

Even so, Digital River's numbers look impressive. Last quarter sales were $5.8m, against $2.3m in the first quarter of the year. For the business to take a significant bite out of total software sales two things will probably have to happen.

One is that big businesses start using software download as a purchase mechanism. (A survey of the company's European customers showed a surprisingly high percentage downloading from a standard telephone line, and more than 40 per cent came from companies with fewer than 49 employees). The other is that bandwidth becomes cheap and plentiful. With exciting broadband technologies on the horizon, including satellite-based systems, it is easy to imagine a day when the majority of software is downloaded rather than shrink-wrapped.

The challenge for Digital River will be to continue to justify its place in the value chain as payment mechanisms and e-commerce web solutions become commodity products that publishers and resellers can buy off the shelf.

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TRAVEL UPDATE

Fast light rail link from JFK to NY city centre at last

New York is finally getting its act together to provide a fast transport link between the city centre and John F. Kennedy airport, *writes Farrol Kahn*.

The Port Authority of New York and New Jersey is to announce that funding for a $1.5bn (£880,000) light railway has been agreed. The service will reduce the journey to Manhattan from as much as two hours to only 45 minutes.

"The problem of bad access between JFK and the city has been building up for some 15 years, eroding the city's competitiveness," said Peter Zantal, managing director for Europe at the Port Authority. "A new rail link will increase our position as the nation's number one international airport."

The line will be a boon for business travellers, as it will not only make Manhattan accessible via Penn station but also enable passengers to go directly to Long Island. The $1.5bn tourist market will also benefit.

The Airtrain will loop around the airport, connecting airline terminals in about eight minutes. From there, it will extend to Jamaica Centre and Howard Beach subway station in Brooklyn.

More than eight miles long, it will open in stages: Howard Beach in 2002 and Jamaica in 2003. The connections from Jamaica include the subway, some 1,000 trains on the Long Island Rail Road and 40 local bus lines. The development is part of a $7.4bn investment programme undertaken at the airport.

The Lufthansa, Air France, Korean and JAL Terminal 1 was recently completed and British Airways is investing $150m in its Terminal 7.

American Airlines, which has finished a $220m renovation programme at Terminals 8/9, is expanding from 35 to 60 gates in a $1bn construction.

IN BRIEF

Confusion reigns over euro introduction

Corporate travellers will be among the first to use the euro as a practical currency, but with only weeks before its introduction they remain unsure as to how it will affect them, *writes Amon Cohen*.

According to a survey by American Express of 400 European business travellers and purchasing managers, 75 per cent of travellers have not been briefed by their companies, with 52 per cent claiming they have not been sufficiently informed. Fifty-five per cent of purchasing managers say they also need more information on the implications of the currency.

Their confusion is not surprising. Travel professionals themselves are divided over how the euro will affect their business – something which was evident at last week's Amex Business Forum in Amsterdam, where the survey findings were announced. Divisions emerged over whether airlines and other travel suppliers will reduce their prices as a result of a unified currency exposing price differentials within EU member states. For instance, a flight from Paris to Frankfurt can be priced quite differently than a flight from Frankfurt to Paris.

Maria Lilja, Amex head of business travel for Europe, told the audience: "I firmly believe that transparency will lead to cost reduction." Companies' travel management costs will also fall as a result of dispensing with currency exchange administration, she argued.

BA to revamp economy class

British Airways will unveil a sweeping re-vamp of its economy class cabins this week. The airline is expected to announce improvements including newly designed seats with more leg room and personal video screens for each passenger.

Meanwhile, BA has tied up a code share agreement with Emirates. From December 1, its flights from London Heathrow to Abu Dhabi will also bear the Gulf-based airline's codes and Emirates' services between Manchester and Dubai will carry the British Airways prefix.

An Emirates spokesperson said that, on some routes where it was not yet possible, passengers changing from one carrier to the other to catch connecting flights would be able to check their bags through to their final destinations.

Air tax dropped

Travellers to Canada from this week will no longer have to fork out a C$15 (£5.80) tax. The tax was to cover charges for air traffic control, information and other navigation assistance in Canadian airspace.

But the country's navigation authority, which is no longer government funded, has switched to a system of fees for its services.

This means a bigger share of the costs is being borne by users other than airlines. The authority, Nav Canada, says the move is saving passengers C$100m a year and that efficiencies have cut planned charges by 10-20 per cent below those envisaged when the changes were first announced.

In brief

● Belgium's **Sabena** has launched what it calls "happy hour" deals on some flights to Brussels from UK and Irish airports. Customers travelling on specified flights save 25 per cent on the lowest one-way business fare and 50 per cent on round trips. Prices from London Heathrow, for example, start at £120, including taxes.

● Watch your laptops on the **Côte d'Azur**. Business travellers despatched to the Cannes area should be aware of a rash of bag snatching from cars. While drivers are waiting at traffic lights, thieves pull alongside on motorcycles and grab valuables left on seats.

● Guests staying at Manchester Airport's new £35m **Radisson SAS hotel**, which opened yesterday, can walk straight to reception from the terminals. The 360-room property says it has already won meetings and other corporate business worth £2m.

● Remote control televisions you can watch from the bath and "hands free" telephones are two of the extra luxuries installed by the **Peninsula New York**, in midtown Manhattan, which has re-opened after a renovation programme costing an estimated $45m-$50m.

● Two months after the crash of Flight 111 off Nova Scotia, **Swissair** is switching off an entertainment system on its MD-11 aircraft as a precautionary measure.

● **Cyprus Airways** was forced to shelve plans to introduce non-smoking flights after cabin staff threatened not to comply in protest at the exemption of pilots from the ban.

Roger Bray

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hong Kong	25	25	25	24	26
London	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Frankfurt	10	12	11	11	11
New York	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Los Angeles	23	24	24	[illegible]	[illegible]
Milan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Paris	[illegible]	14	11	[illegible]	[illegible]
Zurich	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Information supplied by [illegible]

BUSINESS TRAVEL AIRPORT OPENINGS

A departure in chaos

Malpensa's opening is the latest example of an airport opening that has gone far from smoothly, says **Gillian Upton**

Anyone travelling to Milan over the last week will have found out the hard way about the new airport arrangements in the city. Long flight delays and equally long journeys to an airport outside the city marred the opening of the new Malpensa airport on October 25.

Passengers had been used to Linate airport, a mere 20 minutes by cab from the city centre, and mainly used for European and domestic flights.

But the journey from downtown was made worse by massive congestion on arrival as a result of demonstrations. Linate airport had been designed to accommodate a maximum of 7m passengers each year but some 14m passengers were due to squeeze through its doors during 1998.

The airport is often fog bound, leading to cancellations, and could only take aircraft up to Boeing 767 size. To add to its troubles, the green lobby had become more active.

Linate will now continue as a domestic airport mainly serving the Milan-Rome shuttle. For the past 15 years the Lombardy region had been campaigning for a new international hub airport. Rome, naturally, resented the competition.

The decision to build a new L2,200bn ($1.3bn) terminal at Malpensa and move all flights there was highly controversial – and led to a fierce battle between the Italian government and the European Commission this year. The way the move was executed, however, had disastrous consequences for travellers.

Brussels and other European airlines argued that Malpensa should only open once proper road and rail connections to the city centre were in place. The motorway to Milan has yet to be expanded and there will be no express rail connection until next May. Travellers now have the option of either using a bus service, paying around L120,000 ($73) for a taxi, or driving, which will take at least an hour. The new rail link, when it eventually operates, will take 37 minutes.

Confusion reigns as to which airport to go to, for not all airlines transferred all of their services. Under the Italian compromise with Brussels, some 34 per cent of flights have remained at Linate. These will have to move to Malpensa once the new road and rail links are completed.

The Malpensa experience will be familiar to frequent business travellers. Opening a new airport is a huge and complex logistical exercise and few airport authorities seem to get it right. Only a fortnight ago Oslo opened a new airport without a rail link to downtown.

"The interface between rail and air is key," said transport analyst Chris Tarry from Dresdner Kleinwort Benson. "Airports are increasingly being sited outside cities and you need a public transport system to make it work."

Opening a new airport is a huge and complex logistical exercise

Fresh in frequent travellers' memories is the disappointment of the much-hyped new airports in Hong Kong and Kuala Lumpur. Both opened within days of each other this summer and much farther away from the city centres.

It was computer failure which dogged their early days. Flight, baggage and cargo delays were put down to computer failure at Chek Lap Kok in Hong Kong and passengers were denied the comfort of private airline lounges during their wait as few had opened.

The government had forced the opening in July rather than wait for a later date in September.

It was also computer failure which caused havoc with baggage retrieval at Malaysia's new £1.4bn airport in Sepang, outside Kuala Lumpur, the week before Hong Kong's opening.

But Denver airport takes the prize, however, for the worst airport opening. A new-fangled computerised baggage system sent bags flying into the air rather than around the carousel.

These events make the move from the old to new airports at Munich in May 1992 a textbook case. Munich Riem closed at 10pm on May 16 and seven hours later the new airport opened. It went like clockwork. Munich's luggage and baggage systems, for example, were tested for 12 months prior to opening.

"We did it in one night and everything went well," said airport spokesperson Robert Wilhem. "We learnt that testing and more testing is vital. The typical German goal of perfection is a good thing in this respect."

The days of city centre airports are numbered and travellers in the next millennium will be travelling farther from downtown to reach airports.

BUSINESS EDUCATION MBA DIARY

Mastering the art of reinvention

A year at Cranfield School of Management makes a new man of **Steven Sonsino**

When I realised it was not a game, suddenly I began to sweat. Two directors and the group development manager for an international consultancy had driven from their headquarters just to see me and a colleague on the full-time MBA programme at Cranfield School of Management.

I could not understand why an MBA project on human resource strategy had attracted such a high-powered audience. Surely we should have gone to see them?

It was then that I realised this was for real. After the exhausting and endless cramming of analytical tools, the projects of the third and fourth terms were not just opportunities to practise the management techniques and interpersonal skills we had been developing. They were to show us that we had already become tomorrow's managers. It was frightening and exhilarating in equal measure.

The same scene was repeated in project after project across my key strategy and human resource electives. I wondered, for example, why Colin Sharman, international chairman at KPMG, welcomed us. Didn't he have better things to do than listen to upstart MBA students?

I suppose the idea that we might bring a fresh angle to issues that had frustrated the best minds even of international consulting firms was electrifying. I felt, in the background, a profound sense of relief that the investment of so much of my time and money was beginning to come to fruition. But there was something else, too, harder to pin down.

It felt as if I had mentally crossed an immense barrier, but without realising it. I felt calmer somehow, more certain. And my wife Jacqueline noticed this, too.

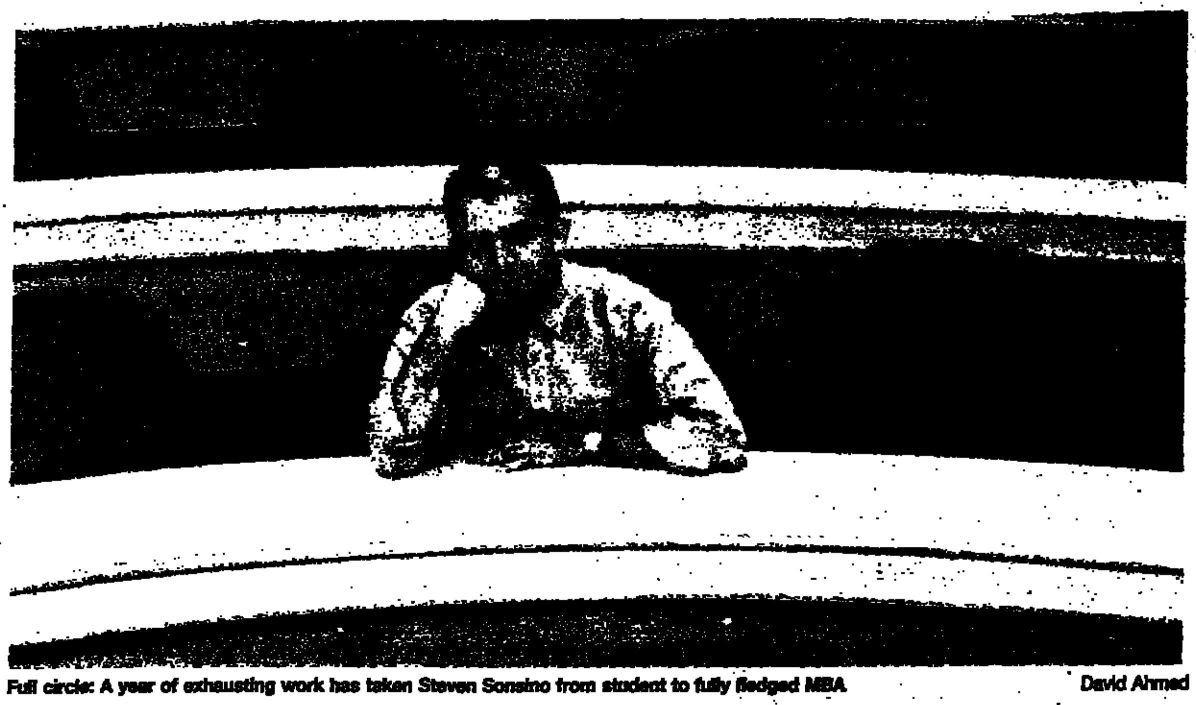
"You're more confident than you were a year ago," she said one evening. It was the first night we had spent alone together for almost two months. We went to bed before midnight and I fell asleep trying to remember the last time I had turned in before 2am.

Over the next few weeks my thoughts repeatedly returned to her comments. I knew what she meant, I thought, but it was not as if I had been lacking in confidence before. Where had the extra come from?

I was nowhere near a solution when I received a note from Martyn Jones, then the director of the full-time MBA programme. Tuesday is an interview day for prospective students, he said. We usually "expose" the students to a lecture, but exams meant this would not be possible. Could he rerun one of my project presentations on that day? I immediately agreed.

And then I asked myself why? The three-hour business law exam, scheduled for 2pm that afternoon, was the stiffest facing me the whole term. Why had I agreed when I really needed the time to cram?

Then it occurred to me that it did not matter. An exam is hardly a realistic assessment of a manager's abilities, anyway. And I had already picked up as much as I wanted from lectures, class discussions and reading. An extra few hours to memorise case law meant nothing in comparison with the opportunity to meet next year's would-be MBA students.



Full circle: A year of exhausting work has taken Steven Sonsino from student to fully fledged MBA David Ahmed

And that was it, I realised; I had crossed over and was no longer a student – I was an MBA. With that realisation the rest of the final term flew by, punctuated only by a panel interview with professors and faculty at Cranfield.

The interview followed my second big realisation – that I did not have to relaunch my existing company or start a consulting business to continue working at a high level in the strategy and human resource fields. Why reinvent the wheel when I could reinvent myself and work for a leading business school?

The author, who owns a small training company in south-east England, has recently completed a one-year MBA programme at Cranfield University School of Management. This is the final instalment of his diary

Some hours after the gruelling interview, Leo Murray, director of the school, called me in to tell me I had secured the teaching fellowship in strategic management. My brief? To work with top teams exploring strategic leadership and change management issues, among many other things.

So now my relationship with Cranfield is different. While last week I was there for orientation week, elected to help coach the 1998-99 intake through the transition from manager to student, now I am here to support them as a member of the strategy faculty. I am very excited by the prospect.

My wife is also excited and has astonished me by her wholehearted support for the change of direction, despite having been an MBA widow for a year.

The only niggle at the back of my mind during our celebrations was how colleagues at my training company in Surrey would respond to the news of my appointment. I can, of course, continue to act as a consultant for them, as well as provide business leads, but my day-to-day involvement will finish now I am to be based at Cranfield.

I did spend some time, but not nearly enough, discussing with manager Mike Bowen, now a director, how to transfer the day-to-day operations of the business into his hands. And somehow I had to pass on as many of the practical points from the MBA as I could as soon as possible.

But we soon agreed that this particular transition would have to continue over a much longer period. It had taken me a solid year to learn all the tools and techniques of marketing and finance, for example. How could I communicate even a fraction of my learning to him and his team in a fortnight? Did they even want that?

As the new term gets under way I find myself wondering, is an MBA year out from the workplace worth the money? Is it worth missing the family, missing the sleep and missing the salary? For me the answer is a resounding yes, but for many people the answer may be "it depends".

My MBA has provided a continuous stream of personal challenges, some of which I tackled head on, others I hardly bargained for and still struggle with. On balance, though, the opportunity to develop a greater understanding and awareness of my own skills and attitudes to business, together with working through the messy process of finding the critical balance between work and family life, is something I would not have traded for anything.

This process has been so significant for me that I am sure it is the inherent value of undertaking an MBA. In other words, the programme is not about cramming for exams or memorising the latest business jargon. The value of the degree depends entirely on your own desire and ability to forge long-lasting relationships during the programme, and – particularly – on how much change you are prepared to embrace as an individual.

Having captured this idea in my diary I remembered the first time I had met Martyn Jones, at the London MBA fair two years ago. I remembered that this was the very point he had made to me when I first asked him whether it was worth doing an MBA.

Now when people ask me whether an MBA is worth doing I find I am the one asking: "How much change are you prepared to embrace?" And I realised I had come full circle – that it was time now to put the theory into practice.

My MBA makeover was complete.

NEWS FROM CAMPUS

Schmalensee takes over the top job at MIT

The Massachusetts Institute of Technology's Sloan School of Management has named Richard Schmalensee as its new dean, following the summer departure of Glen Urban. Prof Schmalensee, who served on President George Bush's Council of Economic Advisers, is an authority on regulatory and antitrust policy, and will be an expert witness in the federal government's case against Microsoft.

"Dick was a valued member of my Council of Economic Advisers," said President Bush. "MIT is lucky to have him."

Prof Schmalensee served as deputy dean under Prof Urban between 1996 and 1998 and has been interim dean since July. His focus will be on enhancing the school's facilities, deepening connections to other schools at MIT, and improving links to the business community.

The new dean, who hails from Illinois, received both an undergraduate and doctoral degree from MIT.

Double dose of learning

The increasing pressure on doctors to prove they can handle balance sheets as effectively as bad backs has led the Simon school, at the University of Rochester in New York, to set up a joint MD and MBA programme in conjunction with the university's school of medicine and dentistry.

The joint programme will enable students to achieve both degrees in five years – one year less than the time needed to complete both degrees independently. The course involves the medical students spending much of their summer holidays in management training.

The Simon school plans to begin the programme in September 1999.

● The Simon school has also announced an MBA specialisation in brand management, run by the school's marketing department

Simon school: www.ssb.rochester.edu

Fiscal course for high flyers

The University of Bath School of Management, in the UK, has joined forces with the SGS Group (Société Générale de Surveillance), the Geneva-based inspection and verification group, to launch an MBA programme which focuses on fiscal policy and taxation.

The programme is specifically aimed at high-ranking government fiscal managers from developing countries and is intended to help build stronger economies in developing countries.

Barclays backs entrepreneurs

Financial services group Barclays is providing £1.5m funding over five years to establish a centre for entrepreneurship at Durham University Business School, *writes Chris Tighe.*

The Barclays Centre for Entrepreneurship aims to develop entrepreneurial behaviour not only for the benefit of UK business but across society.

The Centre's programme will include a part-time MA entrepreneurship course, piloted this year, the development of entrepreneurship training packages and the creation of education and consultancy packages around personal, business, organisation and stakeholder development themes.

Durham: http://www.dur.ac.uk/dubs/sbc/sbc.htm

Information for News from Campus should be sent to Della Bradshaw, The Financial Times, One Southwark Bridge, London SE1 9HL. Tel. 44 171 873 4673 Fax 44 171 873 3950

OPENINGS

STOCKHOLM
Ingvar Lidholm is the subject of this year's contemporary composer portrait at the Konserthus. A 10-day festival, beginning on Thursday, includes a selection of his choral and chamber music, and the vocal symphony he has drawn from his opera *A Dream Play*.

PARIS
An unusual pairing of one-act operas by Zemlinsky and Ravel, *Der Zwerg* and *L'enfant des sortilèges*, opens at the Palais Garnier on Thursday. James Conlon conducts, and the staging is by Richard Jones and Antony McDonald.

At the Théâtre de la Ville, Helen Vincent directs *La Nuit des Rois* – known in English as *Twelfth Night* – by Shakespeare.

LONDON
The Royal Concertgebouw visits the Festival Hall on Thursday for the first of three London concerts it is giving this season. Riccardo Chailly conducts Mendelssohn's Violin Concerto (Joshua Bell) and Mahler's Fifth Symphony.

The 42nd London Film Festival, dedicated to the memory of Akira Kurosawa, opens on Thursday at the Odeon Leicester Square with the international premiere of the musical comedy *Little Voice*, starring Michael Caine (right).

The Oris Jazz Festival, in various venues throughout the capital, kicks off on Friday. Among the headliners are Chick Corea, Lester Bowie and Geri Allen (far right).

An exceptionally busy week in the West End includes the opening tonight of a new play at the Tricycle Theatre by Tariq Ali and Howard Brenton, *Ugly Rumours*, directed by Christopher Morahan and Stephen Rayne, in which Sylvia Syms (left) plays both Mrs Thatcher and The Queen; the Royal Shakespeare Company's new production of *Troilus and Cressida*, directed by Michael Boyd, opening at the Pit on Thursday; and the star Berlin actor Ekkehard Schall performing for two nights only (Friday and Saturday) at the Almeida Theatre in a play partly about Bertolt Brecht (his own father-in-law), *Brecht Died and I Am Right*.

SAPPORO
The Orchestre de Paris begins a 10-concert tour of Japan on Thursday at the Sapporo Kitara Hall. Georges Prêtre conducts all the concerts on the tour, which winds up at Tokyo's Suntory Hall on November 15 and 16.

DUSSELDORF
An important exhibition about the life and work of Aleksandr Rodchenko (1891-1956), first seen in New York during the summer, comes to the Kunsthalle on Friday. With 300 works ranging from painting to design, sculpture and photography, it is the chronicle of a Russian artist's progress in revolutionary times. It moves to Stockholm's Moderna Museet in March.

LYONS
Dukas's rarely-staged Maeterlinck opera *Ariane et Barbe-bleue* can be seen at the Opéra over the next two weeks. The company's new music director, Louis Langrée conducts a staging by Patrice Caurier and Moshe Leiser, and the title role is sung by Françoise Pollet. The first night is on Wednesday.

Proud to be sexist in a male world

Andrew Clark talks to Francesca Zambello, a director who is not going to let opera go the same way as all those 19th century heroines

She's not agenda-driven like Peter Sellars, or design-led like Bob Wilson. Nor is she a conceptualist in the mould of the Alden brothers. Of all American directors working regularly in Europe, Francesca Zambello is the odd one out: she is versatile, she's pragmatic and she's a woman.

She likes to stress that fact. Judging by some of the louder criticisms she has made of her profession, you'd think Zambello was fighting the war of the sexes single-handed. She has a point: it must be tough being a feminist in opera. She spends most of her time working in theatres run by men, directing operas written by male composers, in which most leading women are portrayed as victims.

'We can't put opera in general on a political correctness barometer. It would fail miserably in every case'

And yet Zambello, a 42-year-old New Yorker, is as guilty as anyone of the sexual stereotyping she claims to be fighting. In a recent interview with Time magazine, she argued that women had a more "primal" response to music: "They see colours and images where a man might think of a text." When she gets a bad review, she blames it on "menopausal males".

Throw those quotes at her, and you quickly realise that, while the words "feisty" and "forceful" could have been invented for her, Zambello also knows how and when to turn on the charm. "Yes, those are totally sexist statements," she admits without a hint of defensiveness, "but that's OK, isn't it? I don't see why I should have to listen to *men* being sexist all the time. The problem is that most people who are opera-goers are not politically aware in feminist/social issues. More often than not they also happen to be affluent, the kind of people we need to pay for opera. I don't want to offend them, but sometimes I wouldn't mind raising their political awareness."

She usually does so at her own cost: some of her most self-consciously feminist productions, like the notorious *Lucia di Lammermoor* at the Metropolitan Opera in 1992, have been her biggest flops. But Zambello's bark is usually worse than her bite, and London – the scene of several notable successes in recent seasons – should have nothing to fear from her next two productions. In *Boris Godunov*, which she stages for English National Opera this month, there's hardly a woman to be seen all evening. In *The Bartered Bride*, her Christmas show for the Royal Opera at Sadler's Wells, she has promised not take the male characters to task for emotionally battering the heroine.

"Part of the story *is* cruel," says Zambello, warming to her subject. "*The Bartered Bride* is about the abuse by a man in a position of power, who takes his girl for granted. That's universal. If we hold it up to the contemporary mirror, it's definitely a sexist opera. But we can't put opera in general on a political correctness barometer. It would fail miserably in every case."

And so the production is to be naive and folkloric, with plenty of children, a lot of dance and a big circus act. That's where the pragmatist in Zambello comes into play. Well aware of the Royal Opera's parlous condition, she talks of the need to distinguish between shows which entertain, and those where there is room to provoke. "You have to weigh up those things, and find the appropriate context. Right now, if most of the world could have its way, they'd bump all artists off the floor, so I feel conscious of a responsibility to keep nourishing this art form – which means doing productions which are going to get people in there. I want opera to survive. If we're not careful, it's going to go the way of half those 19th century heroines."

If Zambello is not driven by a particular aesthetic or agenda, what does she stand for? She sees herself as part of a reaction against the intellectualism of the last couple of decades, "when we distanced ourselves from what may be perceived as simplistic things – character, story, feeling." There is nothing iconoclastic about Zambello's work. She is essentially a collaborative artist, who needs input from others to help formulate an approach. Her rejection of what she calls "the one-person vision" helps to explain the lack of blinding originality in her work. Where she scores is her awareness of practicalities. She can be relied on to put on a good show – neither overloaded with ideas, nor empty-headed.

A pragmatist who rejects the 'one person vision': opera director Francesca Zambello — Jason Orton

That's one reason for her popularity with opera house managements. Another is her cosmopolitanism. Zambello's nomadic childhood – her father was an international businessman - has given her an understanding of and respect for national cultures on either side of the Atlantic, and she adapts her style to suit local expectations. She admits, for example, that only in Paris would audiences have been enraptured by the *grande decadence* of her recent world premiere staging of Philippe Fénelon's *Salammbô*. "If you tried that in London, people would be heading for the door in droves. It's a matter of priorities. In England, culture takes a lead from spoken theatre, so you have to be attentive to the text."

But Zambello's success also stems from astute career-planning. Apart from a few isolated cases, she kept clear of the central repertory until she felt mature enough to handle it. *Boris Godunov, The Bartered Bride* and the mainstream Verdi operas she has lined up for the next two years represent a new departure. When she accepted her latest ENO engagement, it was supposed to be Rimsky-Korsakov's little-known *The Legend of the Invisible City of Kitezh*. Financial pressures forced the change to *Boris*, which she reluctantly accepted, knowing her work will face comparison with previous London productions.

If her previous efforts with epic Russian opera are anything to go by, *Boris* should be worth watching. Her love affair with Russian culture dates from student days, when she spent a year in Moscow and St Petersburg. She says that pointing up the contemporary parallels in Musorgsky's drama is "too obvious. We've seen it all before, we know Russian history is cyclical, that it's never going to change. I don't want to undercut those rivers of the past; I'd rather approach it on a personal level, because these are not just Russian characters - they're universal."

As for Smetana's bitter comedy, she confesses it did not rank on her wish-list, but the chance to work with Bernard Haitink was too good to pass up. "You get to a point when you want to work with the great conductors. It does change the calibre of your work. The bar goes up, you want to jump higher, because you're with the best. That's a great stimulus – otherwise you're just repeating yourself."

And what of the future? Zambello, who lives on New York's upper west side with author and critic Manuela Hoelterhoff, plans to spend a large chunk of 1999 on sabbatical. She has two world premieres on the boil with US composer Tobias Picker, one of which will mark her return to the Met in 2002. Longer term, she wants to become artistic director of a European opera company. That's an intriguing prospect. Given Zambello's skills of organisation and communication, the male-dominated world of opera has nothing to fear – and everything to gain.

WEXFORD OPERA FESTIVAL

A bravura attempt at roguish exploits

Pavel Haas, born in 1899, was exterminated in the Nazi gas chambers in 1944. He'd been Janáček's pupil. His opera *The Charlatan* had its premiere in Brno in 1938, and its second production at this year's Wexford Festival. It's an odd piece: farcical episodes from the life of a travelling quack-doctor after the Thirty Years War.

***The Charlatan* was sung in Czech, but a bilingual libretto was available (and there's a also a recording, made from Prague concert performances last year, in Decca's *Entartete Kunst* series). So one could learn what was going on in any particular scene; the difficulty was deciding what, if anything, it all amounted to. There's a big cast: 15 men (several of them playing multiple roles) and two women.**

In the first scene, Dr Pustrpalk cures the fair Amaranta of lethargy by seating her, knickerless, in a basket of stinging nettles. In the sixth he operates unsuccessfully on the monk who has been Amaranta's guardian, and fears being arrested as a charlatan. In the last, he sees an apparition of the monk and dies of apoplexy. It's an odd comedy. Scene 4 ends with a miller screaming as he's burned to death in his mill, while Pustrpalk's troupe sings a jolly drinking song.

We're invited to discern Janáček's influence, but this amounts to little more than a frequent repetition of short speech-motifs. Hindemith and the neoclassical Stravinsky come more often mind. In the last scene we get a popular song: 11 strophes with refrain, ingeniously varied in accompaniment, in praise of Pustrpalk's exploits. It's all perfectly agreeable – but somehow baffling.

The hero was played, by Luca Grassi, as not Dr Dulcamara but a handsome, romantic young poet. His troupe, dressed as *commedia dell'arte* characters, included some excellent singers (among them Ludovit Ludha, Peter Wedd, Simon Wilding, Julian Jensen). John Abulafia, directing, moved the action forward from the 17th century to 1885-1914; he wrote of – but hardly showed – a rural community slowly changing as it became part of the modern world. Israel Yinnon, who has made a speciality of Terezin scores, conducted.

Zandonai's *Cavalieri di Ekebù* (1925, two years after the Garbo movie) is another puzzle piece. The libretto derives from Selma Lagerlöf's *Gösta Berling's Saga* (1891). La Comandante, the chatelaine of Ekeby, leather-clad, whip-wielding, has assembled a band of society outcasts who revel in her halls but also toil in her iron-works. Gösta, her latest recruit, is a disgraced pastor who has taken to drink. He loves Anna, one of a band of girls also kept at the castle. Anna's father, Sintram, is some sort of demon. He reveals that La Comandante acquired Ekeby as a reward of sin, and maintains it by consigning one of the knights to hell each Christmas Eve . . .

Not exactly verismo! More of a high-falutin' old muddle. The music is boldly post-Puccinian, but more ambitious than memorable. The Wexford performance, conducted by Daniele Caligari, was deafening. The Italian mezzo Francesca Franci and the Argentinian tenor Dario Volonté were reluctant to drop below full blast in a little theatre where a whisper can tell. Alida Barbasini, the Anna, was gentler; and the Maltese tenor Joseph Callejo was poignant as the knight due to be sacrificed.

Illustrations of Forzano's 1925 production show colourful scenery. In Wexford, Francesco Cacagnini dropped in little three-dimensional models against back curtains. All three shows this year had recourse to basic black and were somewhat underlit.

Next year's operas are to be Giordano's *Siberia*, Goldmark's *Queen of Sheba* and Moniuszko's *Haunted Manor*.

Andrew Porter

INTERNATIONAL

Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
● *The Rake's Progress: by* Stravinsky. Conducted by Reinbert de Leeuw in a staging by Peter Sellars. Cast includes Donald McIntyre, Thomas Randle and Willard White; Nov 4
EXHIBITIONS
Rijksmuseum
Tel: 31-20-673 2121
● Van Gogh in the Rijksmuseum: during the period of the Van Gogh Museum's closure for renovation and building work, a selection of its finest holdings will be exhibited in the Rijksmuseum's South Wing; to Mar 7

BERLIN

DANCE
Deutsche Oper
Tel: 49-30-34384-01
● Cinderella: new staging by Roberto de Oliveira. The title role is danced by Tamako Akiyama, and the conductor is Peter Ernst Lassen; Nov 3
OPERA
Staatsoper unter den Linden
Tel: 49-30-2035 4555
www.staatsoper-berlin.org
● Christoph Kolumbus: by Milhaud. New staging by British film director Peter Greenaway, conducted by Philippe Jordan; Nov 5

CHICAGO

OPERA
Lyric Opera of Chicago
Tel: 1-312-332 2244
www.lyricopera.org
● Ariadne auf Naxos: by R. Strauss. New production by John Cox, conducted by Robert Spano. Cast includes Deborah Voigt and Susan Graham; Nov 2, 6
● Mourning Becomes Electra: by Martin David Levy. New production by Liviu Ciulei, conducted by Richard Buckley; Nov 4
EXHIBITIONS
Art Institute Of Chicago
Tel: 1-312-443 3600
www.artic.edu
● Art and Archaeology of Ancient West Mexico: more than 200 works, including terracotta figures found in tombs, and findings of recent excavations. Many of these objects have never before been publicly exhibited; to Dec 6

COPENHAGEN

EXHIBITIONS
Louisiana Museum of Modern Art, Humlebaek
Tel: 45-4919 0719
www.louisiana.dk
● Joan Miró: big retrospective comprising 140 paintings, drawings and sculptures, including works borrowed from the artist's family since the exhibition was shown in Stockholm over the summer; to Jan 10

GLASGOW

OPERA
Scottish Opera, Theatre Royal
Tel: 44-141-332 9000
● Dalibor: by Smetana. Conducted by Richard Armstrong in a staging by David Pountney; Nov 4
Theatre Royal
Tel: 44-141-332 9000
● Scottish Opera: The Magic Flute: by Mozart. Scottish Opera production by Martin Duncan, conducted by Richard Farnes; Nov 3, 5

HELSINKI

DANCE
Finnish National Ballet
Tel: 358-9-403 021
● Giselle: staging by Sylvie Guillem. With sets and costumes by Ramón B Ivars. Conducted by David Garforth; Nov 4

LAUSANNE

EXHIBITIONS
Musée Cantonal des Beaux-Arts
Tel: 41-21-312 8332
● The Collection of Dr Henri-Auguste Widmer: in 30 years, Widmer collected more than 600 works of art. This display, designed to pay tribute to one of the museum's most generous donors, includes works by Boudin, Daubigny, Chintreuil and Rousseau. The exhibition also includes sculptures and a selection of antiquities; to Nov 8

LJUBLIANA

DANCE
Cankarjev dom
Tel: 386-61-222 815
● Siobhan Davies Dance Company: 10th Anniversary Autumn Tour. Programme features Eighty Eight, a new work set to piano music by Conlon Nancarrow, played by Rex Lawson, and Winnsboro Cotton Mill Blues; Nov 3

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
● London Symphony Orchestra: Michael Tilson Thomas conducts a series of works by Stravinsky; Nov 6
OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
● Mary Stuart: by Donizetti. Conducted by Jean-Yves Ossonce (Noel Davies from Nov 7) in a new staging by Gale Edwards; with costumes by Jasper Conran. Ann Murray sings the title role, with Susan Parry as Elizabeth; Nov 5
EXHIBITIONS
Royal Academy of Arts
Tel: 44-171-300 8000
● Charlotte Salomon: born in Berlin in 1917, Charlotte Salomon died in Auschwitz in 1943, after living in hiding in the south of France for three years, during which time she produced a series of 769 gouaches called Life? Or Theatre?, exhibited here, which has been interpreted as a form of self-protection against the violence of the Nazi era; to Jan 17

MILAN

OPERA
Teatro alla Scala
Tel: 39-02-88791
www.lascala.milano.it
● L' Elisir d' Amore: by Donizetti. Massimo Zanetti conducts a staging by Ugo Chiti, with designs by Tullio Pericoli. Mariella Devia sings the role of Adina; Nov 6

MUNICH

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
www.staatstheater.bayern.de
● Der Freischütz: by Weber. Conducted by Zubin Mehta in a new production by Thomas Langhoff, with designs by Jürgen Rose. Cast includes Petra-Maria Schnitzer and Peter Seiffert; Nov 3

NEW YORK

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
● Le Nozze di Figaro: by Mozart. New staging by Jonathan Miller, with designs by Peter Davison. With Renée Fleming, Cecilia Bartoli and Bryn Terfel, conducted by James Levine; Nov 3
EXHIBITIONS
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
● Degas Photographs: bringing together 35-40 photographs, most of which were made in the 1890s. Mainly figure studies, self-portraits and portraits of the artist's circle; to Jan 3

SAN FRANCISCO

OPERA
San Francisco Opera, War Memorial Opera House
Tel: 1-415-864 3330
www.sfopera.com
● Tristan und Isolde: by Wagner. Conducted by Donald Runnicles in a staging directed by Michael Hampe, designed by Mauro Pagano; Nov 6

STOCKHOLM

EXHIBITIONS
Moderna Museet
Tel: 46-8-5195 5200
www.modernamuseet.se
● In Visible Light: Photography and Classification in Art, Science and the Everyday. Traces the evolution of photography from the late 19th century to works by artists including Andy Warhol and Cindy Sherman; to Nov 15

WASHINGTON

OPERA
Washington Opera, Kennedy Center
Tel: 1-202-295 2400
www.dc-opera.org
● Fedora: by Giordano. Conducted by Roberto Abbado in a production by Lamberto Puggelli, directed here by David Edwards, and designed by Luisa Spinatelli. The cast is led by Mirella Freni and Placido Domingo; Nov 4

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

ECONOMICS NOTEBOOK ROBERT CHOTE

A world in the woods

There is political momentum behind the global economic reform agenda advanced with substance and style by the G7 last week

It would be easy to dismiss last Friday's statement on global economic reform by the Group of Seven leading industrial nations as a mere rehash of proposals that had already won support at the annual meetings of the Bretton Woods institutions in Washington a month ago.

But this would be to underestimate its significance. The document from finance ministers and central bank governors – accompanied by a parallel statement from heads of government – underscores the political momentum behind the reform agenda. This is important at a time when critics lament a lack of global leadership and when financial markets need reassurance as a multi-billion dollar rescue package for Brazil nears completion.

Agreement: Robert Rubin caved in to pressure over the G22 AP

The statement struck a careful balance, highlighting recent positive policy developments – notably the interest rate cuts implemented in many industrial countries and the passing of banking sector reform legislation in Japan – while avoiding the suggestion that the world economy is now out of the woods. Policymakers remain very nervous about the prospects for Latin America, let alone the political and economic aftershocks of the crises in Asia and Russia.

But there was substance as well as style. A month ago the G7 agreed only to "explore" President Bill Clinton's proposal to extend precautionary credit lines to well-run emerging market economies in order to inoculate them against potentially contagious financial crises.

This lukewarm language reflected German reluctance, which the change of government in Bonn and some intensive lobbying of Hans Tietmeyer, the Bundesbank president, have helped to ameliorate. The G7 now backs the proposal, which will be able to draw on the $90bn of fresh lendable resources that will be released to the International Monetary Fund by agreement in the US Congress on its capital increase and enlarged credit lines.

By trumpeting its backing for this proposal the G7 is clearly trying to bolster investor sentiment ahead of the announcement of the Brazilian package. Officials from the G7 and the IMF are well aware that the Brazilian congress could easily undermine the fiscal tightening promised by the government, while the short-term maturity of much of the country's domestic debt remains a serious threat.

Policymakers remain very nervous about the prospects for Latin America, let alone the aftershocks of the crises in Asia and Russia

Larry Summers, the US deputy treasury secretary, said on Friday that "some of the ideas involved with contingency financing could possibly find application with Brazil". But the essence of the precautionary credit line proposal is that it should provide an insurance policy to protect "innocent bystanders" from an indiscriminate loss of investor confidence. As its substantial budget and current account deficits indicate only too clearly, Brazil lost its innocence some time ago.

The G7's expression of support for the precautionary credit line proposal does not mean there is a fully worked out mechanism ready. Indeed, there is resentment in Washington that the proposal is being foisted on the IMF staff and even its executive directors without adequate thought. After all, problems soon became apparent when a similar idea was mooted some years ago to help smaller industrial countries.

First, there is the issue of defining an "innocent bystander" and thereby deciding which countries might qualify for such a credit line. Does Chile's current account deficit signify a failure to adjust policy or the unavoidable consequence of a terms-of-trade shock?

Second, there is the problem of what to do with countries granted credit lines on the strength of strong policies, only for those policies to deteriorate once the credit lines are in place. The IMF's executive board would be reluctant to withdraw a credit line from a country where policy was going off track, for fear of triggering a crisis. The only way to ascertain the importance of these problems is to launch the facility and wait and see. But there are many officials in Washington who doubt that precautionary credit lines can have a permanent place in the IMF's armoury.

In addition to the anti-contagion measures, the G7 also picked up several themes from the Group of 22, a US-inspired collection of industrial and developing countries. These included:

● Promoting transparency of national policies (including annual audits by the IMF and a commitment to detail public sector foreign exchange positions).
● Aiding crisis resolution (including informal IMF-sanctioned debt standstills and bond contract clauses to restrain rogue creditors).
● Strengthening financial systems (including greater co-ordination among supervisors and an examination of hedge fund supervision).

As important as the substance is the fact that the G7 has taken up the G22 agenda. The creation of the G22 reflected US frustration at the over-representation of Europe – and under-representation of key emerging markets – in the IMF's "interim" committee and the Basle-based Group of 10.

Robert Rubin, the US treasury secretary, has caved in to pressure from smaller European countries for admission to the G22 (now at least 26). These countries argued that they had extended credit lines to the IMF, yet the US wanted them frozen out of the global financial reform debate.

Despite this concession, France and Germany remain concerned at the role of the G22. But by bringing its agenda back under the G7 umbrella, Gordon Brown, the UK chancellor, may have started to heal the rift.

The G7 statement may look like a singularly modest advance. But in the byzantine world of international financial diplomacy even a modest advance can be a cause for cheer.

LETTERS TO THE EDITOR

Managed inflation in Japan risks endangering confidence and competitiveness

From Mr Erol Emed.

Sir, Paul Krugman ("Even worse than you think", October 27) is faulty on at least four counts. First, with a majority of its populace at or close to retirement age Japan is demographically not a suitable country for inflation. Not only will it fail to motivate pensioners to spend their future consumption needs today, but also it will be a cause for shifting the aggregate allocation of investment portfolios further away from domestic assets.

Second, with 10-year bond yields at a mere 0.91 per cent, inflation will aggravate the problems of banks undermining the efforts to strengthen the country's financial system.

Third, we have no clue on the potential consequences of runaway inflation, created by a deliberate policy, in a society that is as closed and as under-researched as Japan's. Anger and unrest among the nation's beneficiaries, who rightfully think that present living standards are earned at the expense of two generations, are probably the mildest of all possible outcomes.

Fourth, recovery by inflation will endanger Japan's competitive advantage in the long term because it will create a kind of "moral hazard" among inefficient manufacturers that their high-cost structure will be bailed out by consumers.

While inflation has a chance of short-term success to restore demand, but not confidence, by threatening consumers with purchasing power loss, its immediate positive effects are likely to die out quickly.

The policies should instead be aimed to stop deflation as a first step and then to increase the purchasing power of consumers without eroding the profit base of companies through encouraging enhancements in efficiency. This way there will be a real base for economic recovery rather than an imaginary one.

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Japan

From Mr Jack Stopforth.

Sir, Paul Krugman's Personal View of the Japanese economic malaise stressed that its cause goes beyond the banking system, but neglected its more significant structural implications.

We have long envied the interdependence of Japanese manufacturers and their financiers. The holding of equity by the banks in the leading corporations seemed the perfect buffer against short termism. Similarly, the Toyota manufacturing method and Just In Time delivery systems ardently copied by UK companies are underpinned in Japan by long-term supply contracts between manufacturers and suppliers and reinforced by cross-shareholdings involving customer, supplier and bank.

This interweaving of interests served the Japanese well, until the credit crunch caused by over-lending in the banking sector turned the structure into a house of cards. The banks are liquidating assets and calling in loans which their business partners had assumed were in place for the long term; larger companies are reviewing supply contracts and the Japanese government and international financial community are questioning the solvency of the banks, giving the volatile mixture a further shake.

The shock to the Japanese business establishment is palpable to any business visitor to Japan, though not yet apparent in the bustling stores and full hotels of Tokyo. Presumably there will be more visible evidence when the inescapable restructuring of Japanese industry takes a more strident form than the mere non-replacement of vacancies currently being mooted.

For all the pain, though, we should not forget that Japan is two-thirds of Asia, economically, and is four times the size of the UK economy. It is equipped to survive the crisis and may emerge stronger for the experience.

Jack Stopforth,
chief executive,
Cumbria Inward Investment Agency,
Redhills, Penrith,
Cumbria, CA11 0DT, UK

Long Term Credit Bank, a victim of Japan's economic problems, has been nationalised. Recapitalisation of the banking sector is seen by many as a necessary step towards the country's recovery

From Dr Beate Reszat.

Sir, Ken Takasu (Letters, October 29), responding to Paul Krugman's article, seems overly optimistic about the state of banks and bank regulation in Japan. Stating that whenever a Japanese bank's capital ratio falls below 4 per cent it must reduce risky assets to restore capital adequacy fails to recognise the factual negligence of Japan's regulators. Otherwise, one could not explain the fact that in its 1996 "Prompt corrective action" programme the Japanese Ministry of Finance distinguished three categories of banks – the lowest including banks with a capital ratio of "less than zero per cent".

Another indication of regulators' lax attitude is that the liabilities of the now nationalised Long Term Credit Bank turned out to exceed its assets by at least Y340bn, although by the end of March this year the bank reported a capital ratio of 10.32 per cent. This does not leave an outside observer with much faith in the system.

Beate Reszat,
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Germany

From Professor Richard Higgott and Dr Heribert Dieter.

Sir, Paul Krugman's article suggests that in Japan "deeply unconventional measures" are necessary, but refrains from pointing out the options available, apart from re-emphasising his own proposal for "managed inflation". All conventional measures have been tried and have not shown any positive results. Interest rates can't be lowered any further, but what can be done?

Basically, the measures would have to meet the following criteria: they should provide the funds for a re-capitalisation of the banking sector without increasing public borrowing too dramatically; they should contribute to the restoration of confidence in Japan as well as towards the strengthening of the yen; and, above all, these goals should be achieved in a reasonable period of time.

A proposal that fits those criteria is a one-off tax on savings, combined with a subsequent slight rise in interest rates to strengthen the yen. Even a modest one-off tax on savings in Japan would provide enough funds to bail out the banking sector.

A tax on savings would be more than just financing the (inevitable) bank bailout from general tax revenue for it would exclude those without savings. Also, it would not, in contrast to other forms of financing the bank bailout, put a burden on future generations.

Sounds too radical? Perhaps it is, and certainly it would be difficult to get political support for it in Japan. But for the Japan of 1998, there seem to be very few alternatives to radical solutions.

However, the current picture – Japan once again trying to export its way out of trouble when the rest of Asia is doing the same, and the Americans and Europeans continuing to act as "consumers of last resort" – will undoubtedly lead the world economy into ever greater trouble.

Richard Higgott,
director, ESRC Centre for the Study of Globalisation and Regionalisation,
University of Warwick,
Heribert Dieter,
visiting fellow, Centre for Globalisation, and fellow,
University of Duisburg

From Mr Patrick O'Brien.

Sir, Professor Paul Krugman's article coincided with my theory that the public is satiated with consumer goods. We possess in our house three television sets, four ovens, a microwave, three types of blender etc., etc. "Inflating the economy" will not increase demand for manufactures under these circumstances.

The only growth industry is services. We have a cleaner but we would like someone to do the ironing. Fashion could provide work. We note that youngsters wear jeans instead of suits, trainers instead of shoes. They spend money on holidays but are destroying the natural world as a result.

There is a similar situation with the money supply. People have plenty of cash but are saving it because they see no value except the stock market and even that is over-valued. The rise in the retail prices index is the first indication of an inflation to come when people lose confidence in paper currencies – an inflation to be eliminated with recession if world trade dries up.

Present economic policies reducing interest rates etc. are going to make conditions worse.

Patrick O'Brien,
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Tilting at windmills on buy-backs

From Mr Simon Laffin.

Sir, Lex ("Shareholder value", October 26) doesn't like share buy-backs. This is familiar ground. As he says, "the idea that companies should gear themselves up to the eyeballs . . . looks more suspect". Lex is right in that the apparent differential in cost between equity and post-tax debt is greater than the additional debt risk premium associated with even quite high gearing. So gearing up even to levels of 100 per cent is theoretically attractive. But Lex is tilting at imaginary windmills to suggest that companies take this literally. The real debate is whether a modestly expanding company needs to sit on cash or 10 per cent gearing rather than, say, 40 per cent to 50 per cent. In this case the theory looks compelling.

As interesting, however, is the tone of the debate on buy-backs. Why do commentators talk of them as "a sop to get angry shareholders off their backs"? Why should a technical adjustment to a major cost line be portrayed as a failure of management to develop their business or an attempt to save their skins? And why are buy-backs (without tax credits!) so vilified over dividends, ordinary and special? Surely we need to get to the stage where companies can freely operate on what they (and their shareholders) believe are reasonable levels of gearing, distributing and requesting capital to maintain this.

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Virtually a big saving

From Mr Philip Mickelborough.

Sir, Lord Jenkins's proposals for proportional voting may not, after all, be without merit.

The 120 unelected "top-up" MPs would come from party lists composed of people whose loyalty and voting support for their party is unquestioned. It is, therefore, unnecessary to appoint any people to these posts; they could be virtual MPs without names, salaries, expenses, secretaries or offices. The votes of elected MPs would merely have to be handicapped by the number of virtual MPs for each party to decide the outcome of divisions in the House.

This would effect considerable savings in the cost of running parliament, as well as reducing the number of MPs with a propensity to commit indiscretions.

Philip Mickelborough,
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On the right flight path

From Mr James W. Beaumont.

Sir, Re your leader "Bumpy landings" (October 28), like the man said "It ain't necessarily so". Everything you wrote about Italy's new Malpensa airport does not apply to the new Munich airport. The old one was closed down and transferred to the new one in 24 hours, and all was well. I wonder why? And why was this achievement not included in your leader?

Wise travellers avoided Malpensa like the plague. It is a certainty it will have to be closed for reorganisation.

James W. Beaumont,
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Germany

A modest answer to generating dynamism among small firms

From Mr David Campbell.

Sir, The report from Lord Simon and Christian Pierret ("Growth agenda for small firms", October 29) was illuminating. I noted the four issues which the eight different UK and French government agencies identified during the last six months.

With modest resources I managed to come up with the following four suggestions. These are:

● Fewer regulatory structures, giving more oxygen to business;
● Less taxation, tipping the balance toward risk taking;
● More finance will be attracted to higher profits;
● Increased employment, as business expands. I am sure this would improve economic dynamism as sought by the task force. As for social justice and welfare, countries could trade off the level of employment with the costs of employment. Governments essentially could choose how to spend the benefits reaped from the economic dynamism generated. The invisible hand is always at hand and is indeed the best method of maximising "the pot" available for welfare.

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COMMENT & ANALYSIS

FINANCIAL TIMES

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Monday November 2 1998

Return of the bulls

At a casual glance it might appear that the markets think the worst of the global financial crisis is over. Recent rallies make August's stock market slump look like a mere blip. But the market signals are not quite so easy to interpret.

During October, there was a major shift from bonds back into equities. Many of the world's leading stock markets are now up on the beginning of the year. There also appears to have been some easing in credit conditions.

The reversal in the markets was triggered by two changes in investors' attitudes. First, there is more confidence in world leaders' reaction to the crisis. The US Fed's interest rate cuts were critical in changing sentiment. Last Friday, further evidence of a more activist response came when the G7 said they would "commit themselves to create or sustain conditions for strong, domestic demand-led growth".

Second, fears of further contagion have eased. Lower US interest rates, combined with the fall of the dollar against the yen, have taken the pressure off many emerging market currencies still pegged to the dollar. And there has been substantial progress toward an IMF deal for Brazil.

So fears of a 1930s-style world depression have receded, and investors are no longer desperate to retreat into the expensive safe havens of US treasuries or German bunds. But where do the markets go now? One reason to expect further volatility is that investors are still adjusting to a low-inflation, low-growth world. In these circumstances, bonds will be more attractive – but they may have overshot. It will take time to reach a new equilibrium.

Current equity valuations will be put under strain by the global economic slowdown. The latest US data shows the economy growing by a healthy 3.3 per cent in the third quarter. But inventory build-up accounts for perhaps one full percentage point. And we can be sure that we are far from seeing the end of real economic adjustment to the crisis.

Earnings growth is already being hit. In the US, preliminary earnings figures for Standard & Poor index companies were down 4.4 per cent in the third quarter of this year – the first drop in seven years. European companies, particularly in the financial sector, are also suffering.

More nasty shocks cannot be ruled out. And the apparent return of an appetite for risk should not be overstated. Bond yields are still very low, and credit conditions are tight.

The positive developments over the past month may have, understandably, induced feelings of relief in the markets. But even with reassurances over interest rates exerting a powerful upward influence, worries over world growth will continue to cast a dark cloud over the equity market for a long time to come.

China crisis

China's decision to clean up its over-stretched international investment company sector has met an anguished response that must perplex the Beijing authorities. They firmly believe they are right to get to grips with financial sector problems in a way that other countries in Asia, notably Japan, have failed to do.

The intervention, which started with the closure of Guangdong International Trust and Investment Company, has prompted international lenders to question China's entire credit standing. Bank lines have been scaled back and sound borrowers have had to pay a loan premium because of doubts over the willingness of central government to stand behind them. At home there is anecdotal evidence of mounting lack of depositor confidence in secondary institutions. That is a disconcerting echo of the run on Indonesian banks that followed the closure of 16 institutions under Jakarta's first IMF programme a year ago.

None of this means China was wrong to embark on the clean-up or that it should abandon it now. The longer investment company problems are left to fester, the harder they are to resolve, as Japan's banking agony shows. Nor can there be much sympathy for international banks which have been reckless and sloppy in their lending. But China has picked a moment when confidence is fragile. It needs to keep the clean-up as transparent and speedy as possible.

It is dangerous to behave in a way that suggests an arbitrary and retrospective rewriting of the rules on the validity of guarantees. The Chinese authorities bear some responsibility for their poor track record in supervising these companies. If provincial government guarantees have always been illegal, then this ought to have been picked up much earlier by banking supervisors. Unauthorised borrowing, wilfully hidden from the authorities is one thing. Genuine guarantees should be respected. The more uncertainty China creates in this area, the greater the risk to overall confidence.

Even with optimal management, the clean-up is bound to affect the economy. The total assets of the investment companies are small in relation to the overall banking sector, but their lending has been in private enterprise and projects where China's growth has been fastest. That calls for some measures to stimulate demand. A further cut in interest rates, speedier housing reform and measures to boost infrastructure spending come to mind. Senior officials fear any rebound will quickly turn into overheating. But it is precisely because the economy has slowed so sharply that the financial sector problems have become acute.

Opening skies

Why would anyone want to fly to Heathrow? London's other international airports, Gatwick and Stansted, are tidier and better-organised. But US airlines say Heathrow's international connections make any other airport unacceptable to their customers.

However, under the existing UK-US agreement, Bermuda II, American and United Airlines are the only two US carriers allowed into Heathrow. Hence the US desire to open the airport to all by reaching an "open skies" agreement with the UK.

While the US has managed to conclude open skies deals with 31 countries, it has waited a long time to reach such an agreement with the UK. It might have to wait even longer. British Airways has said it does not want Heathrow to be opened to US competition all at once. It would prefer liberalisation to take place over several years. This means BA would have to wait for regulatory approval for its planned alliance with American.

Should the two governments go along with this? The UK probably should. BA cannot be the sole determinant of government policy; UK travellers benefit from their dominant airline facing more competition than national carriers anywhere else in Europe. Virgin Atlantic, British Midland, Ryanair and EasyJet have all kept BA on its toes.

However, BA's desires cannot be ignored. Many international airline executives see it as a role model; there are few, if any, other UK companies which attract similar accolades from their peers. There are also practical objections to opening Heathrow immediately. The airport is so congested that air traffic controllers believe any additional flights would compromise safety.

The US is unlikely to be happy about an agreement which allows gradual liberalisation. But Washington's position is weak because it earlier this year concluded phased open skies agreements with France and Japan. It is difficult to see how it could argue the UK should be treated differently.

The European Commission will object. It last week moved ahead with legal action against eight European countries, including the UK, for having bilateral deals with the US which discriminate against other EU carriers. However, Brussels concedes existing bilateral deals will not be scrapped, but simply incorporated into a wider EU-US accord.

A more substantial objection is that governments should not be horse-trading in this way at all. Aviation should be like any other industry – open to competition without excessive state interference. But it is not. A graduated UK-US open skies agreement would be an improvement on Bermuda II – and it may be the only deal available.

The president's progress

Congressional mid-term elections find Bill Clinton concentrating on running the country rather than hitting the campaign trail, write Gerard Baker and Mark Suzman

To his enemies, tomorrow's critical mid-term congressional elections were supposed to be a referendum on President Bill Clinton. Republicans hoped that making the character-flawed Mr Clinton the issue would give them a political breakthrough that might not only secure his impeachment in the next few months, but could also usher in a period of unprecedented Republican domination of national politics.

With Democrats on the defensive over the president's admitted wrongdoings in the Monica Lewinsky affair, it looked as though Republican optimism that they could build significantly on their existing majorities in the House of Representatives and the Senate was justified.

Mr Clinton himself, most unusually for an incumbent president, campaigned sparingly, heeding the advice of Democrats that it might be better if he stayed out of their districts.

But if the president has been conspicuous by his absence on the campaign trail, he has been busy elsewhere, aiming to recapture some of the momentum of his presidency through the most effective form of campaigning he has ever done – governing.

Mr Clinton has done an excellent job in the final two weeks of the campaign in projecting himself as national leader, above the partisan fray of Washington, fulfilling his duties to the people.

Two weeks ago he got the better of the Republican-controlled Congress in the final negotiations over the US federal budget for the current fiscal year. Later that week, he persuaded Benjamin Netanyahu, the Israeli prime minister, and Yassir Arafat, president of the Palestinian authority, to strike a deal that restarted the Middle East peace process. Last week he was in the thick of discussions that led to a statement by leaders of the Group of Seven industrialised nations aimed at stabilising the world economy.

In between, he even got time to pose very publicly in Cape Canaveral as all Americans cheered the return to space of hero-astronaut John Glenn.

In the end, of course, this string of apparent successes may be as fleeting and unproductive as Mr Glenn's nostalgic trip back to the stars.

However, they have largely achieved their primary goal, which is to neutralise Republican attacks. With polls suggesting a solid two-thirds of the American people still approve of Mr Clinton's performance, the White House has been hoping that this burst of presidential activism will further highlight the contrasts between Mr Clinton and his opponents. While they continue to pore over details of his sex life, the argument goes, Mr Clinton is busy running the country – and doing it rather well.

If he does secure his survival, as seems increasingly probable, Mr Clinton then has a much more difficult task. To prove that, in his final two years in office, facing a Republican-controlled Congress, he is still relevant and capable of forging some kind of legacy as an effective president. He has a number of important outstanding domestic and international policy changes he wants in the next two years – from wholesale reform of social security (the state pension system) – to securing fast track trade negotiating authority.

The successes of the past few weeks were designed to demonstrate that even in the most adverse circumstances, Bill Clinton's political and administrative skills are so great that he can secure the main points of his programmes.

"We had a very difficult year this year, without question. But look, for example, at the budget we were able to get through," says Joe Lockhart, Mr Clinton's press secretary. "The fact is, that even in the circus-like atmosphere of the past year, the president has been able to prevail on his main budget priorities. That shows we can get things done."

Both tasks – surviving the impeachment process and getting through his remaining legislative ambitions, depend crucially on keeping the expected Republican gains tomorrow down to the bare minimum.

In fact the Democrats' prospects are no longer nearly as bleak as they were in the days after Kenneth Starr, the independent prosecutor, first released his report calling for the impeachment of Mr Clinton. The Lewinsky affair has been a mere detail in most of the congressional campaigns.

The campaign across the country has been unusually fragmented – no great national issues have dominated – as they did in 1994, for example, when the Republicans swept to power. "Even after the Starr report, the fact is that local districts are primarily concerned with local issues," says James Thurber, director of the Center for Congressional and Presidential Studies at American University in Washington. "The issues vary from place to place, but people want to talk about crime, jobs, the environment and education."

As a result, with the US economy still performing well, the poll looks set to be what most analysts had predicted before the scandal broke: an election in which the vast majority of incumbents are easily returned to office.

Republicans remain outwardly confident of gaining as many as 30 seats in the House of Representatives while adding to their 32 state governorships.

Potentially even more important, while they have no realistic shot at winning the 67 seats needed to convict the president if the House decides to impeach him, there is an outside possibility that they will manage to secure the 60 needed to override Democrat attempts to filibuster legislation. For their part, Democratic leaders say publicly they hope to regain control of the House, but many privately acknowledge that holding their current seats would be a victory.

> **The key for both parties will be how many voters decide to go to the polls**

The key for both parties will be how many voters decide to go the polls. Although the election is expected to plumb new lows in turnout, Republicans had initially hoped that the deep disgust their supporters have for Mr Clinton would ensure they vote in larger numbers than their opponents. But Democrats are no longer as fearful that their supporters will stay home in frustration at the president's behaviour.

Nevertheless, even if the Lewinsky affair has not significantly affected the poll, several Democrats still look vulnerable. Carol Moseley-Braun of Illinois, the only black woman in the Senate, is regarded as likely to lose, while in California and Washington respectively, Barbara Boxer and Patty Murray are both fighting off tough challenges from Republicans attacking their liberal voting records.

Russ Feingold, a liberal-leaning Democrat from Wisconsin, could be one of the surprise losers tomorrow – hoist, as it were, by his own integrity. Mr Feingold, who has sponsored legislation to change the way US political campaigns are run, has refused to raise funds that would easily have been available to him. His opponent, unburdened with such scruples, has massively outspent the Democrat.

But a couple of Republicans are also at risk, most notably Alfonse D'Amato, the New York senator who is struggling to retain his seat in the face of a strong challenge from Charles Schumer, a Democratic congressman. In the House too, several Democrats are making unexpectedly strong showings in Republican seats.

But while the tightening race means there is still an outside chance Democrats could end up gaining seats, Republicans enjoy two key overall advantages: they are defending fewer vulnerable districts and enjoy a huge financial edge which has allowed them to put vast amounts of extra cash into marginal races. As a result, most analysts still expect the party not only to win several key gubernatorial races but make modest gains in Congress. Adding an extra 6-12 seats in the House and two or three in the Senate would still be regarded as a satisfactory outcome for the party.

Even if not as damaging as initially feared, that could be awkward for Mr Clinton. A good Democratic performance at the polls is likely to make Congress more willing to bring an early end to the Lewinsky saga, perhaps by settling for a lesser punishment, such as formal censure. But there are still fears that Republicans could react to a largely uneventful election by deciding to drag out an impeachment inquiry in a "fishing expedition" to try to embarrass the president.

On the basis of the evidence in the Starr report, even moderate Republicans agree that while the president might be impeached by a majority of the House on charges of perjury and obstructing justice, it is unlikely that the required two-thirds of the Senate would vote to convict him.

There are signs that a growing number of Republicans are beginning to question the benefits of dragging out the process. Last month Jack Kemp, a potential candidate for the party's presidential nomination in 2000, said he thought Mr Clinton should be censured, not removed.

Ultimately the bigger question may be whether, in what seem guaranteed to be politically acrimonious circumstances, the two sides can agree on important legislative priorities. Here the signs are mixed.

The president has already signalled that his primary goal is to build on the newly balanced budget by reforming the troubled social security system to ensure its solvency next century. Republicans, however, while agreeing on the need for reform, are anxious to see the new 106th Congress push at last for what they have failed to achieve so far – significant tax cuts.

Only once the shape of the new Congress is decided will it become clearer whether the two sides have any realistic chance of overcoming their mutual distrust and of working towards a legacy that stretches beyond impeachment hearings.

OBSERVER

A wizard way to fly

Jet-set executives are trying every trick in the book to avoid Milan's new Malpensa airport. Aside from computer and baggage delivery problems, the 50km taxi ride into the city takes an hour and costs as much as a cheap return flight to London. It's a terrible bind for busy business folk, so what better time to launch an executive airline based at nearby Bergamo?

Gandalf Airlines, inspired by the good wizard in J.R.R. Tolkein's *Lord of the Rings*, is due to start flying across Europe next year from Bergamo's Orio al Serio airport. Behind the project are three former McKinsey management consultants led by Luciano di Fazio, a man who learned to fly even before he passed his driving test.

Financial backing for his flight of fancy comes from Unicredito Italiano, recently formed through the merger of Milan's Credito Italiano with a group of north Italian regional banks. Alessandro Profumo, the bank's chief executive and new whizz-kid of Italian finance, was also once a McKinsey partner. The bank is taking a 12.5 per cent stake.

Ahead of the launch, di Fazio is only too happy to shout about the high standards of service he'll be offering passengers. But Gandalf's biggest bit of magic could be getting executives to Milan without having to go through the dreaded Malpensa. Could be one airline that really takes off.

Wrong channel

When is a river not a river? It sounds like a question for the dictionary rather than democracy, but in Missouri tomorrow they're voting on just this issue. And the gaming industry is holding its breath.

In 1994, voters changed the state constitution to allow gambling on the Mississippi and Missouri rivers. But the subsequent explosion of gaming joints has gone well beyond those smoke-belching wooden sternwheelers that once plied the rivers, where gentlemen in black waistcoats play poker and drink rye whisky.

The definition of a riverboat has been stretched and these days includes much bigger vessels. Developers have built ponds linked to the rivers by narrow channels and put large barges full of gaming machines on them surrounded by non-floating motels, restaurants and car parks. The vessels are known as "boats in moats" and don't go anywhere. They don't have captains, crews or navigation equipment – though some do have engines.

But the Missouri Supreme Court last year defined a river in such a way that only three of the 16 boats involved in the state's gaming industry were actually floating on one.

Tomorrow's mid-term election in the state of Missouri is accompanied by a proposition to change the definition again and let a few more of the joints stay afloat. Either way, it should cause a few ripples.

Soap froth

State-run Vietnam Television isn't known for innovative programming. But Sunday afternoons have been transformed by a new homegrown soap – *The Story of Nho Village*, an everyday story of country folk in open revolt against communist authorities.

Since last year's anti-government protests in the northern province of Thai Binh by villagers angry about corrupt local officials, rural unrest has been a sensitive topic in Vietnam. But the fictional villagers of Nho have had viewers glued to their sets as they barricade their village and fight off the security police – all in the hope of getting benign central government help against corrupt local officials.

It may sound like a call to direct action by disgruntled Vietnamese peasantry. But there's a moral to this tale: the local leaders, who are portrayed sympathetically, are really unscrupulous elements taking advantage of the situation – just what the authorities said about the Thai Binh troublemakers. In the end, the innocent villagers learn the wisdom of complaining through the proper channels.

Pedal power

New Slovak prime minister Mikulas Dzurinda has made lack of charisma a political trademark. The 43-year-old former railway manager was a compromise choice to lead the new five-party Slovak Democratic Coalition. His campaign style involved wheeling around villages on a bicycle, oblivious to the risk of being pelted with rotten fruit.

This low-key style has served the Dzurinda well. Slovaks have tired of political strongmen and the diminutive one-time transport minister could hardly be more different to Vladimir Meciar, the charismatic former premier who spent the election campaign appearing before adoring party rallies. While Meciar still won more votes overall, Dzurinda's good showing gave him the premiership.

The question now is whether the new boy can hold on to the reins of power. One of his ministers – Jan Carnogursky, another former premier – is already muttering about dissolving the SDK, which was formed only to get round Meciar's electoral laws. Other old-style party bosses are waiting in the wings. It'll take more than an unassuming manner for Dzurinda to stay in the saddle.

The Financial Times 100 years ago

Bad News From Havana
The Western Railway of Havana had a dismal experience in the year ended with June, the Cuban insurrection being in full swing during the earlier portion of the period, and the Spanish-American war setting in at the end of April. Accordingly, the report announces a decrease in gross receipts. But the management cannot complain of the year as being lacking in excitement, for on no less than eight occasions bombs were exploded under the company's trains, the explosions being generally followed by a fierce attack by the insurgents on the Spanish soldiers in the carriages.

Nicaragua Canal
New York, 1st Nov. The Government of Nicaragua has granted to an American syndicate of which Mr. W. R. Grace is the chief member a concession for building a canal. The concession is to be operated at the expiration to the Nicaragua Maritime Company on 10th November 1899. The capital of the new syndicate is $20,000,000 8 per cent. The canal must be constructed within ten years and will be exempted from taxation. The concession includes a land grant of one million acres.

FINANCIAL TIMES

MONDAY NOVEMBER 2 1998

THE LEX COLUMN

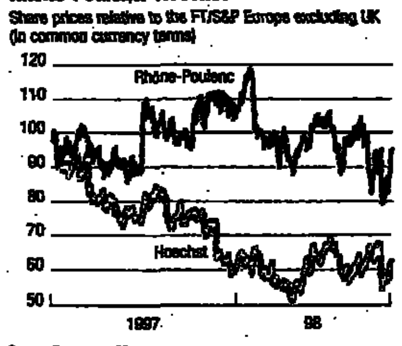
Bullying the Banks

Any risk of Europe's fledgling central bank enjoying a quiet life in Frankfurt has disappeared. That much has been ensured by the political shift in Germany. France, of course, has long held highly ambivalent views about a politically unaccountable central bank based in Frankfurt. But now barely a day passes without Chancellor Gerhard Schröder and his finance minister, Oskar Lafontaine, saying that central banks should care as much about growth as about stability.

At the outset, the ECB will lack political legitimacy. If this campaign serves to remind it that it needs to earn the support of Europe's populace, so much the better. But it is clearly wrong for Mr Schröder to finger the central bankers for low growth. If he wants to deal with that problem, he should look a bit closer to home and put tax and labour market reforms at the top of his list of priorities.

Rhône-Poulenc/ Hoechst

Share prices relative to the FT/S&P Europe excluding UK (in common currency terms)



Source: Datastream/ICV

Philips

At least Cor Boonstra, Philips's president, has been a man of his word: fix, close or sell was the motto and he has given notice that factories will be closed with a vengeance over the next four years. That will be small consolation coming on the heels of the joint venture with Lucent whose unravelling will cost the group some $500m. For a year's work, that is some price tag.

Still, Mr Boonstra cannot be blamed for the unhappy mismatch in Philips's operating capacity – too much overall, but not enough for some of its key products – which is he now getting to grips with. By taking in hand an excessively centralised structure, and concentrating it on the hardware end of the business, he has brought valuable focus.

What remains is for him to show that he can leverage a valuable brand into a growth business. Much will turn on the wisdom with which he spends his cash pile.

US elections

Investors may have other things at the forefront of their minds, but they would be unwise to ignore tomorrow's US congressional elections entirely. With all the seats in the House of Representatives and a third of the Senate up for grabs, the outcome will influence two market-moving issues: impeachment and tax cuts.

A swing to the Republicans, who already have a majority in both houses, would make it more likely that Congress votes to impeach President Bill Clinton next February or March. Although the US public in general continues to give the president solid job approval ratings, most Republican voters favour his removal from office. Even if he escapes impeachment, the prospect of a politically paralysed president, at a time when US global leadership is more important than ever, would surely be received badly by financial markets. Separately, the Republicans are also likely to press for the budget surplus to be used to make big tax cuts, which has negative implications for bonds.

A Democratic victory – they need a net gain of 11 seats to regain a majority in the House – would take the wind out of impeachment. But this result is not without its problems. Investors would fear a return to big government solutions to economic issues, which could hurt stocks, bonds and the dollar. The Democrats would also pass tobacco and health maintenance organisation legislation more hostile to those industries.

Happily, the most favourable outcome, where neither party significantly improves its position, is also the most likely. Most political analysts assign it a probability of more than 50 per cent. In that case, there would be little market impact, leaving investors free to concentrate on their other worries.

Hoechst/Rhône-Poulenc

Talk of a merger or alliance between Hoechst and Rhône-Poulenc refuses to die down. Neither company is commenting, but is the idea compelling anyway? Both lag behind the world's largest pharmaceutical and life-sciences groups, though they are much improved on several years ago, thanks to similarly minded managements keen on refocusing.

What could a deal achieve? Primarily, scale. In agrochemicals, it would hit the top league of companies with combined expected sales of about $5bn for 1998. Hoechst's business, AgrEvo, is slightly larger, but margins at Rhône-Poulenc's Agrochemicals are higher. Most important, a bigger combine would generate more cash for investment in genetic engineering.

But despite synergies between agrochemicals and pharmaceuticals, a merger would achieve far less on the pharmaceuticals side. There is less overlap in therapeutic areas. Further, Hoechst is under pressure to prune its tail of older drugs. It also needs to cut the number of manufacturing plants the division inherited from a recent merger. Another one, at this stage, would complicate the existing rationalisation effort. The point applies not just to pharmaceuticals. Although Hoechst has been shorn of much of its chemicals baggage, there are more businesses to be shed. And Rhône-Poulenc retains a near 70 per cent stake in its old chemicals business. Neither Hoechst nor Rhône-Poulenc are the pure life-sciences players they aspire to become.

What of a merger's cost-cutting potential? In theory, this should be mouth-watering. Combined, the two groups have selling and general administration costs of between $10bn and $12bn. A modest 10 per cent swipe at that would excite investors, but the hope that the full savings could be wrung out of their respective German and French heartlands looks optimistic.

A full-blown merger looks tricky to achieve, and would offer neither of them the access to the cash pile they need. More likely, two recovering patients would merely serve to prop each other up.

BANKERS SEE LITTLE HOPE OF DEAL DESPITE ECONOMIC RECOVERY PLAN

Russia and foreign creditors set to renew default talks

By Jeremy Grant in London and Arkady Ostrovsky in Moscow

Russia and its foreign bank creditors are expected this week to make a last-ditch attempt to settle their differences over how the country is to repay billions of dollars in defaulted domestic debt.

The issue, which has dragged on for months, is central to whether Moscow can mend its battered image in the international financial community and coax back foreign private capital.

Over the weekend, the cash-strapped Russian government approved an economic recovery plan, even though it has failed to win the support of the International Monetary Fund.

But bankers say the prospects for a deal on domestic debt repayments are slim, as Russian negotiators lack sufficient political backing from Moscow to take the tough decisions needed to clinch a settlement.

A third round of talks broke up last week amid signs of acrimony, with both sides bickering in public over whether a negotiating session on Friday had actually taken place. A fourth is set for Wednesday.

"They [the negotiators] are not the puppet master, they're the puppets. They don't seem to want to open up and share what their thinking is. It may be that the political constraints on them are too severe," said one banker close to the talks.

But the Russian negotiators say they are positive they will be able to reach an agreement this week.

There is intense pressure to strike a deal ahead of the expiry on November 17 of a 90-day debt moratorium, imposed by Moscow in August. If no deal emerges, foreign creditors are likely to resort to legal action to recover some debts from Russian banks.

That is almost certain to choke trade finance with Russia and disrupt efforts to reform the banking system, analysts say.

At stake in the talks is about $11bn in debt. That consists of $8bn-$9bn in treasury bills (or GKOs) owned by foreigners but frozen by the moratorium. It also includes $3bn in forward foreign exchange contracts taken out by foreign investors with Russian banks as a way of protecting their GKOs against a rouble devaluation.

After three rounds of talks, the atmosphere appears to have soured, despite comments on Friday by Russia's chief negotiator, deputy finance minister Mikhail Kasyanov, that there was agreement on a framework plan to restructure the debt.

He said the Russians were considering separate solutions to the problems of GKO debt and forward foreign exchange contracts. Meanwhile, the central bank has offered guarantees to encourage foreign GKO-holders to take stakes in Russian banks.

Russia has proposed offering to swap both GKO debt and forward contracts for a 17-year eurobond with an eight-year grace period, during which no interest would be paid. But the banks say the bond is almost worthless when valued against comparable Russian bonds outstanding in the market.

Russia ignores IMF, Page 2

Japan and World Bank agree plan to guarantee bond issues

By Stephen Fidler and Gillian Tett in Tokyo

Japan will co-operate with the World Bank and the Asian Development Bank to provide guarantees for bonds issued by troubled economies in Asia, a senior finance ministry official has said.

It has agreed with the two agencies to find ways to use guarantees to help reflate the Asian economies, said Eisuke Sakakibara, vice-minister of finance for international affairs. The money raised from the issues could be used to help in corporate and banking system restructurings and to help provide social "safety nets".

The plan comes as the world's largest economies step up their efforts to strengthen the global financial system. On Friday, the Group of Seven leading industrialised nations backed a scheme to protect well-run emerging market economies from potential crises.

Japan is at pains to show it is providing help to the Asian region, partly to stave off criticism that the weakness of its domestic economy is damaging its neighbours.

Mr Sakakibara said bond issues by Asian economies "could be a catalyst in achieving their economic recovery". He also said such issues could help revive the Japanese yen bond market.

Last month Kiichi Miyazawa, finance minister, unveiled a $30bn plan to help the Asian region and said he hoped to launch guarantees as part of this scheme.

The World Bank has also been asked by its government shareholders to explore greater use of guarantees to help countries whose access to international capital markets has been closed off.

But until now the "Miyazawa" plan and World Bank pledge had not been publicly linked. The World Bank has insisted it will only use guarantees when it can "catalyse" significant volumes of extra financing from other sources.

Mr Sakakibara said details of the use of the guarantees had not yet been agreed. But he said the guarantees would be provided to governments rather than directly to, say, restructuring banks. The guarantees would also be partial, leaving the private sector to take some of the underlying country risk. He said the plan would, in effect, be to subsidise part of the interest payments for the borrowing countries.

Japanese officials said half the $30bn could be made available for such bond guarantees and for loans. The other half would be devoted to trade financing of a more "traditional" nature.

The scheme would need to be approved by Japanese parliament and is unlikely to be implemented until early next year.

Rein in hedge funds, Page 3
Economics Notebook, Page 16

CONTENTS

World champion: Finland's Mika Hakkinen celebrates his title-winning Formula One victory in a McLaren in the Japanese Grand Prix AP

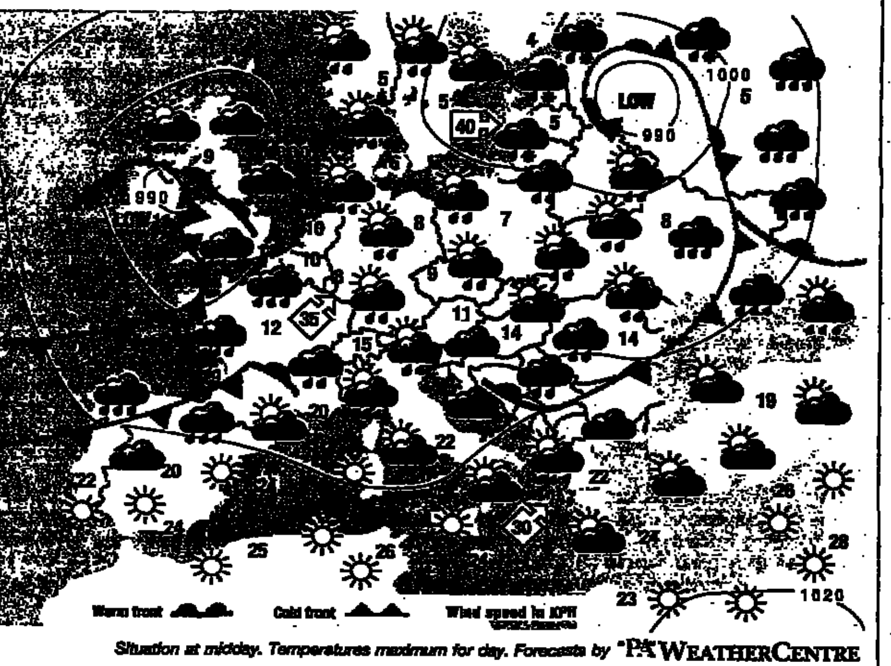
FT WEATHER GUIDE

Europe today

Southern regions of Spain and Portugal will be warm with sunshine, but heavy rain will reach northern parts of the Iberian Peninsula. South-east France, Italy and Greece will be warm with sunny periods and just isolated showers but the Balkans will have some rain. Northern Europe will have rain or showers and it will be cold enough for snow in the northern Baltic states and parts of Scandinavia.

Five-day forecast

South-east Spain, southern Italy and Greece will stay warm with good sunny spells but the northern Mediterranean will turn more unsettled with showery rain and lower temperatures. North-west Europe will become quite chilly with sunny spells and showers but will not be as wet as recently. Scandinavia and north-east Europe will be very cold and wintry.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	30
Accra	Sun	30
Algiers	Sun	25
Amsterdam	Rain	10
Athens	Fair	23
Atlanta	Sun	21
B. Aires	Sun	23
B.ham	Shower	11
Bangkok	Fair	32
Barcelona	Fair	22
Beijing	Sun	13
Belfast	Shower	10
Belgrade	Rain	14
Berlin	Shower	8
Bermuda	Fair	28
Bogota	Thunder	19
Bombay	Fair	34
Brussels	Rain	10
Budapest	Fair	14
C.hagen	Shower	6
Cairo	Sun	29
Caracas	Fair	30
Cardiff	Rain	12
Casablanca	Fair	24
Chicago	Shower	11
Cologne	Cloudy	10
Dakar	Fair	32
Dallas	Sun	24
Delhi	Sun	30
Dubai	Sun	32
Dublin	Rain	10
Dubrovnik	Fair	19
Edinburgh	Fair	9
Faro	Fair	23
Frankfurt	Shower	10
Geneva	Rain	16
Gibraltar	Sun	24
Glasgow	Cloudy	9
Hamburg	Shower	8
Helsinki	Sleet	4
Hong Kong	Fair	25
Honolulu	Sun	30
Istanbul	Fair	20
Jakarta	Cloudy	32
Jersey	Rain	14
Johannesburg	Fair	27
Karachi	Sun	33
Kuwait	Sun	33
L. Angeles	Sun	23
Las Palmas	Fair	29
Lima	Cloudy	21
Lisbon	Fair	22
London	Rain	11
Lux.bourg	Cloudy	8
Lyon	Fair	16
Madeira	Fair	24
Madrid	Cloudy	20
Majorca	Sun	24
Malta	Fair	24
Manchester	Rain	10
Manila	Cloudy	32
Melbourne	Fair	24
Mexico City	Sun	23
Miami	Fair	29
Milan	Fair	17
Montreal	Fair	5
Moscow	Rain	5
Munich	Shower	11
Nairobi	Fair	27
Naples	Fair	24
Nassau	Sun	30
New York	Sun	13
Nice	Fair	20
Nicosia	Sun	26
Oslo	Fair	5
Paris	Rain	12
Perth	Sun	31
Prague	Shower	9
Rangoon	Fair	34
Reykjavik	Fair	3
Rio	Fair	22
Rome	Fair	22
S. Frsco	Sun	18
Seoul	Fair	14
Singapore	Thunder	31
Stockholm	Shower	5
Strasbourg	Fair	11
Sydney	Fair	18
Tangier	Fair	24
Tel Aviv	Sun	28
Tokyo	Fair	22
Toronto	Shower	7
Vancouver	Cloudy	12
Venice	Fair	15
Vienna	Shower	11
Warsaw	Rain	7
Washington	Fair	16
Wellington	Rain	15
Winnipeg	Sun	2
Zurich	Fair	11

FINANCIAL TIMES
COMPANIES & MARKETS
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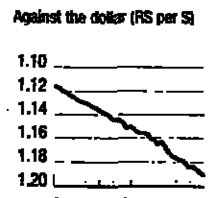
INSIDE

GUS puts finance arm up for sale
Retailer Great Universal Stores has put its finance division up for sale with a £1.2bn ($2bn) price tag. The move is part of an attempt by GUS, which this year won a takeover battle for Argos, to focus more closely on catalogue retailing and information services. **Page 20**

KLM expected to post profits fall
On Wednesday KLM Royal Dutch Airlines is expected to report a net profit before exceptional items of Fl 300m–Fl 369m in the second quarter, down from Fl 463m ($249m) last time, analysts say. **Companies Diary, Page 25**

Du Pont buy seen as boost to M&A
Bankers believe the European takeover market may have been boosted by US chemicals group Du Pont's DM3.13bn ($1.9bn) takeover of Herberts, Hoechst's paints arm, last week. **Page 22**

Handelsbanken bid may hit merger
Sweden's Svenska Handelsbanken hostile NKr5.09bn ($690m) takeover bid for Fokus Bank may torpedo a friendly three-way merger between Fokus, Christiania Bank and Postbanken that would create Norway's largest financial services group. **Market Movers, Page 22**

Brazil congress could test G7 plans
Real
Against the dollar (R$ per $)


Source: Datastream/ICV

This week Brazil's congress will begin considering the government's financial stability plan. The emergence of congressional opposition to the plans may renew pressure on the real, the Brazilian currency, and so may provide an early test to the G7 plans to pre-empt panic movements by increasing the IMF's contingency facility for loans to emerging economies. **Currencies, Page 26; Emerging Markets, Page 23**

European traders eye corporate data
Investors in European stocks will continue to keep an eye on corporate results this week as the reporting season peaks. So far, profits have been broadly in line with market estimates, with the exception of some Russian-inspired horrors in the financial sector. **Equities, Page 27**

Frankfurt awaits company results
Big company results this week, with Dresdner Bank and Siemens to report, could determine whether Frankfurt's blue-chip Dax index can maintain the upward trend on which it ended a nerve-racking month. **Markets Week, Page 25**

Five suitors emerge for NPI
Five companies are emerging as the most likely bidders for National Provident Institution, the UK mutual life assurer that put itself up for sale last month, although other offers could still materialise in the next few days. **Page 20**

Concern over credit derivatives rise
Industry experts are warning that the market in credit derivatives, which allow worried investors to offload their risk to a third party, has grown so fast that some banks may be exposed to significant positions in a product whose risks they still do not fully understand. **Page 24**

FT GUIDE TO THE WEEK

– full listings Page 36

CLIMATE CONTROL TALKS
Officials from some 180 countries begin a two-week conference in Buenos Aires today on reducing greenhouse gas emissions.
BUDGETARY TASTER
Gordon Brown, the UK chancellor, will tomorrow announce his pre-Budget report, which prepares the ground for the full Budget due in March next year.
AWAITING A RATE
The Bank of England's monetary policy committee announces its latest decision on interest rates at noon on Thursday.
ROAD TO INDEPENDENCE
Next Sunday New Caledonia votes cross-party proposals that would set the French South Pacific island on the road to independence.

COMPANIES IN THIS ISSUE

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BP/Amoco merger could cost $2bn

Savings from job losses will help to cover cost of deal

By Robert Corzine

BP Amoco, the oil group to be formed by the £32.6bn ($55.09bn) takeover by British Petroleum of Amoco of the US, expects to spend around $2bn for severance payments and restructuring once the merger is approved.

The "significant severance and other restructuring costs" are expected to be covered by the annual savings of $2bn that the company plans to achieve by the end of 2000.

Details of the projected costs of the world's biggest industrial merger and the savings expected are revealed in a circular to BP shareholders outlining details of the deal. Most job losses are expected to be among office workers in the US, where operations of the two companies have considerable overlap.

The documents also confirm that top Amoco executives demanded extensive assurances to protect their relatively high salaries and generous compensation. They reveal that John Carl, Amoco's chief financial officer, will receive a $1.25m "retention" payment to "induce" him to stay with the group until the end of next March, when he will receive a severance payment equivalent to three years' compensation, including salary, bonus and benefits.

Larry Fuller and Bill Lowrie, who will become co-chairman and deputy chief executive respectively of BP Amoco, have negotiated additional protections. These include large payouts if they are asked "to carry out duties inconsistent with their position", or if they are required to be based more than 50 miles from Chicago in the case of Mr Fuller or more than 50 miles from London in the case of Mr Lowrie.

Mr Fuller, who has options on more than 1.8m Amoco shares, will have a base salary of $1.1m a year, with a maximum bonus of 150 per cent of that figure.

Advisory and legal fees for British Petroleum's takeover of Amoco will amount to about £102m, the circular shows.

Sir John Browne, BP's chief executive, had hoped to keep the total sum paid to investment bankers, lawyers and accountants for helping to deliver the world's biggest industrial merger to below £100m. The deal will be put before shareholders for approval on November 25.

Pro-forma accounts for the merged group show combined profits for 1997 of more than $6bn and a combined market capitalisation of around $110bn, based on the respective share prices just before the merger was announced in August.

The pro-forma accounts also show BP Amoco would have gearing of 24 per cent, below the average for integrated oil companies.

Ex-Rank chief suggests £2bn break-up plan

By Charles Pretzlik in London

Rank Group, the leisure and entertainment company, has received a preliminary approach about a possible £2bn ($3.3bn) break-up from John Garrett, the former head of the group's leisure division, who was ousted earlier this year.

The approach comes in the wake of the resignation last Thursday of Andrew Teare, Rank's chief executive, after disappointing third-quarter results.

Entrepreneur Luke Johnson, who is non-executive chairman of Belgo Group, the restaurant company, is also believed to be interested in buying assets from Rank. A Rank adviser said Mr Johnson had proposed a restructuring of its businesses to Andrew Teare, chief executive, in the past but was rebuffed.

Mr Garrett and Mr Johnson are among a large number of would-be predators who are assessing the assets of Rank, which is now seen as vulnerable to takeover.

Donaldson Lufkin & Jenrette, the Wall Street investment bank, has indicated its interest in Deluxe Entertainment Services, Rank's video duplication arm which also includes Pinewood Studios in Britain.

DLJ is believed to be acting on behalf of Texas Pacific, an acquisitive American venture capital group.

Mr Garrett spoke by telephone to Sir Denys Henderson, chairman, on Saturday about his plans. Yesterday Mr Garrett said: "I was confirming that doors would be open if I were to come along to him with a proposal. Denys and I have always had a very good relationship."

Mr Garrett, who fell out with Mr Teare over a difference of strategy, would like to see Rank broken up with the Hard Rock restaurants, Odeon cinemas, Mecca bingo clubs and Butlin's holiday camps having different owners.

However, the terms of his severance package prevent him from trying to do deals with Rank until April. It is believed that the company would now be prepared to waive those restrictions.

Since leaving Rank in February, Mr Garrett has been seeking leisure investments, aided by advisers from Deloitte & Touche.

Sir Denys, who is conducting a search for a new group chief executive, is understood to be willing to sell Deluxe, which could fetch between £750m and £1bn.

Deluxe's management is also expected to seek funding for a bid.


Looking at Rank: Belgo chairman Luke Johnson Picture: Brendan Corr

Merrill begins sector-based European trading

By Vincent Boland

Merrill Lynch, the US investment bank, has begun trading in European equities by sector rather than by country, heralding a trend towards sector-based share trading in the run-up to Europe's single currency.

The bank claims to be the first big equities house to move away from trading shares along country lines on its London dealing floor.

Other US banks are also planning to begin sector-based trading by January 4, when the euro is introduced in 11 member states of the European Union.

The move brings closer the creation of a single market for the shares of Europe's leading companies. It has been given added impetus by this year's proposal from the London and Frankfurt stock exchanges to create a common equity trading platform for the top 300 European stocks.

The big equity houses have already switched their research focus towards pan-European sectors and away from specific countries. This is seen as an important first step in ensuring a smooth changeover on the trading floors.

The shift also reflects a gradual trend among investment and pension funds towards investing along sector lines.

Thomas Troy, head of European equities at Merrill Lynch in London, said the bank's strategy was largely a response to moves by its customers.

"Our larger customers are moving increasingly from a country to a sector approach to managing money. It's an evolutionary process and we want to keep up with it and in some cases anticipate it," he said.

So far only the big US firms have indicated they would introduce large-scale sector-based trading, although their regional offices will continue to concentrate on national share markets. European bankers, however, expressed caution about switching too quickly from country to sector trading.

They said they would jeopardise their commission revenues if they made the shift before their clients were ready.

"We see no reason to make the change too quickly because we feel our clients do not want it," said the head of equities at a big European bank in London.

Sector investing has long been cited as one of the big benefits of the euro, which will eventually create a single European capital market.

The government bond markets of the 11 euro zone countries will be replaced at the start of next year by a single euro-denominated market which will rival the US treasury bond market in size and liquidity.

Fuji Bank plans alliance with DKB

By Gillian Tett and Naoko Nakamae in Tokyo

Fuji Bank and Dai-Ichi Kangyo Bank are drawing up plans to create the first strategic alliance between two large commercial banks in Japan.

The two banks are considering buying the viable business lines of Yasuda Trust bank, a traditional ally of Fuji, to create a joint asset management and custody business.

Fuji and DKB yesterday denied this would lead to a full merger of the two groups, and said details of the alliance were still being discussed.

However, the move highlights the degree to which financial pressures are triggering a realignment of Japan's banking sector. It comes amid signs that the government is encouraging Japan's weakest banks to merge and restructure as the price of its planned injection of public funds. Last month the government approved a Y60,000bn ($500bn) support scheme for the sector.

The planned alliance between Fuji and DKB is particularly surprising because the two banks have not traditionally been regarded as business partners. They have acted as the main banks for different "keiretsu" business groups.

However, Fuji has come under growing market pressure in recent months, partly because of the weakness of its surrounding "Fuyo" keiretsu and its exposure to the troubled Yasuda Trust. Yasuda Trust has already received a Y100bn capital injection this year from the Fuyo group. But the bank is struggling to meet international capital adequacy standards, since it has Y300bn of unrealised losses on its equity portfolio and Y820bn of problem loans.

DKB, like Fuji, is plagued with large bad loans and faces growing competition in its core business areas due to "Big Bang" deregulation.

The planned alliance would start with a merger between the small trust bank subsidiaries at Fuji and DKB, which would then jointly acquire the pension and custody businesses of Yasuda Trust.

The move will lead to the effective break-up of Yasuda Trust, since it will be left with only its unprofitable lending business. However, Yasuda denies that it plans to close completely.

DANIEL BÖGLER
GLOBAL INVESTOR

Prospect of a soft landing

Will the US economy go into recession? Given America's historic role as consumer of last resort, the prospects for global markets in 1999 depend heavily on the answer to that question.

According to Friday's numbers, the economy is still bumping along quite merrily. Third-quarter gross domestic product grew by an unexpectedly strong 3.3 per cent, up from 1.8 per cent in the second quarter and apparently undermining a growing Wall Street consensus that a recession next year is unavoidable. As a result, forecasts for 1999 are now all over the map – with economists privately expecting anything from contraction to growth of 2.5 per cent.

In trying to determine the outcome, investors should be watching three broad areas. The first is capital spending. With corporate profits coming under pressure, the capital investment boom, which was one pillar of the Goldilocks economy – neither over-heating nor in recession – is at an end. In a recent survey carried out by Moody's Investors Services, more than half the companies questioned reported pressure on selling spending will remain sluggish in 1999, with significant risks of further deterioration.

Of equal concern is the country's trade position. Exports from the US, which were growing by 13 per cent last year, have now declined by 3 per cent. The mushrooming current account deficit, likely to expand from 2.75 per cent this year to 3.25 per cent next, is one factor behind the dollar's recent weakness. However, dollar weakness will help the trade balance, by making exports more competitive, while there is still no sign of the expected surge of Asian imports. The fact that trade cut just 0.7 per cent off GDP in the third quarter, against 2.1 per cent in the second, gives hope that the worst drag on growth from this source may be over.

With those two forces tending to balance each other, everything depends on the consumer. Over the past few years, the US has experienced a spending splurge as US households used their stock market wealth to justify and sometimes even finance consumption. As a result, the savings rate has been driven to almost zero. If falling share prices now reverse that [illegible]vould have a big [illegible]owth – other things[illegible], every 1 per cent [illegible] the savings ratio [illegible]n-tenths of a [illegible] point off GDP. [illegible] of 6 per cent [illegible]onsumer spending, [illegible] this year, are [illegible]ver. According to [illegible] report from the Conference Board, US consumer confidence has dropped to its lowest level for nearly two years, due to growing anxiety about financial markets, political concerns and recent job cut announcements. However, the Conference Board survey was taken before the Federal Reserve's second rate cut, since which share prices have regained ground and a measure of calm has returned to financial markets.

Spending on consumer durables remains healthy, due to booming sales of new homes. How long the housing market will remain strong is hard to forecast. But Ian Shepherdson, chief US economist at High Frequency Economics, says that over the past five years, there has been a tight correlation between mortgage rates and housing starts. If that link holds, the recent decline in mortgage rates suggests house sales could rise 20 per cent in the first half of 1999. That would lead to consumer spending proving more resilient than Wall Street expects.

While the US economy is on track for a severe slowdown, a soft landing looks more likely than a recession, providing another leg to the eight year long expansion. Even so, the Federal Reserve may well cut interest rates again later this month. With no sign of inflationary pressures, the resulting mix should prove beneficial for bonds, although equities will continue to be weighed down by fears over declining earnings growth.

RETAILING GROUP WISHES TO FOCUS ON CATALOGUE RETAILING AND INFORMATION SERVICES

GUS finance division up for sale

By Charles Pretzlik

Great Universal Stores, the retailer, has put its finance division up for sale with a £1.2bn ($2bn) price tag.

The move is part of an attempt by GUS, which earlier this year won a hostile takeover battle for Argos, to concentrate on catalogue retailing and information services.

The sales memorandum was sent last week to likely financial and trade bidders by Merrill Lynch, the investment bank, after GUS had received several approaches for the division.

The document shows it made a trading profit of £117m in the year to March 1998 and has net assets of £1.17bn. At least £70m of the profits came from interest repayments.

The business helps companies and individuals finance the leasing and purchase of cars. Its biggest arm is General Guarantee for Finance, which concentrates on funding motor vehicles in Britain and operates from 55 branches.

The second part of the business, Highway Vehicle Management, specialises in the leasing and contract hire of private cars and commercial vehicles. In total, GUS has a contract hire fleet of 17,000 cars and over 1,000 commercial vehicles.

The third part of the division which is being sold consists of insurance and reinsurance services whose main customers are other GUS companies including Home Shopping and its overseas retail operations.

However, the memorandum does not include details of the small bank which GUS owns, because its future has not been decided.

Once the sale of the finance division is completed, GUS is expected to consider a sale of its overseas interests and Burberrys, the luxury clothing company, which analysts say is suffering from an over-dependence on Asian sales, outdated products and poor retail systems.

Since Lord Wolfson became chairman two years ago, GUS has spent £3.9 billion on seven acquisitions, including Metromail, the US direct marketing group. The group has been transforming itself from a retailing-cum-property conglomerate into a business focused on using databases for profit.

Garban suffers from downturn in Asia

By Charles Pretzlik

Garban, the money and securities broker being demerged from United News & Media, warned yesterday that it had seen a sharp drop in profits in the first half of this year.

In its listing particulars, the company said: "Profits [for the six months ended June 30] were impacted by lower levels of trading activity in the Asia Pacific foreign exchange business and in the UK securities business, where Garban has withdrawn from IDB [inter-dealer broker] equities activities and has been investing in anticipation of the introduction of the euro."

The listing particulars show turnover in the first half was £167.3m ($283m), which Garban said was in line with expectations. No figure was given for last time, but Charles Gregson, chairman, said turnover in the first half was "down about 10 per cent". Mr Gregson said "profits were down further", but declined to say by how much. The company reported a profit before exceptional items and interest of £20.5m in the first half.

Mr Gregson said the Stock Exchange's introduction of order-driven trading in some stocks had cost Garban about £3.5m.

He added that the company made a "premature investment" in European government bond broking, expecting activity to increase sharply in May after the conversion rates had been fixed for the euro. However, activity was slower than expected.

Garban is expected to be valued at between £175m and £200m when trading in its shares begins on November 17. United News & Media shareholders will receive one Garban share for each United share held. Before trading begins, every 10 Garban shares will then be consolidated into one Garban share.

Two of the group's US companies face allegations of sexual harassment, racial discrimination and gender discrimination from the New York state attorney general. The suit claims about $22m. Another sexual harassment claim is subject to arbitration. Mr Gregson said: "We're confident that such a liability as there is will be covered by insurance and the balance sheet would be protected."

The company expects to recommend a final dividend of 15.8p per share.

Graham Hill, chief executive, left, and Charles Gregson

Cable companies discuss franchises swap

By Cathy Newman

The three biggest UK cable companies are intensifying discussions about swapping their local franchises, in the wake of the latest round of consolidation in the industry.

Executives from Cable & Wireless Communications, NTL and Telewest Communications are expected to schedule a meeting to discuss the matter shortly.

Telewest recently paid £130m ($217m) to take control of Birmingham Cable, when it completed its purchase of NTL's stake in the franchise. That move raised speculation about the next stage of the rationalisation process.

The three companies are expected to discuss swapping key franchises in the Midlands and north.

In addition, Telewest and NTL may strike a deal on Cable London, which the operators jointly control.

The latest move to swap franchises follows a period of consolidation: five years ago there were 24 cable companies in the UK, but now most of the industry is owned by Telewest, CWC and NTL.

Some analysts envisage consolidation leading to a single UK cable company, although the exchange of franchises is likely before another takeover.

Earlier this year, CWC approached Southwestern Bell International of the US about buying its stake in Telewest. However, in September, MediaOne of the US bought the shareholding, taking its stake in Telewest to 29.99 per cent.

Suitors emerge for NPI

By Christopher Brown-Humes

Five companies are emerging as the most likely bidders for National Provident Institution, the mutual life insurer that put itself up for sale last month: Swiss Life, AMP, the Australian insurer, Barclays, Norwich Union and GE Capital.

All are understood to have tabled formal bids or expressed serious interest in buying NPI ahead of the deadline for the submission of bids at the end of this week. Three other companies mentioned as possible bidders - Prudential, Halifax and Abbey National - are no longer thought to be interested. Other offers could still materialise in the next few days.

Analysts expect AMP and Swiss Life to be particularly determined, as they have lost out in previous acquisition attempts.

AMP was an underbidder in last year's auction for Scottish Amicable, which was eventually won by the Pru.

The Australian group is known to be keen to acquire a pension provider with distribution through independent financial advisers.

Swiss Life, which is keen to become a pan-European operator, already has a UK presence in Sevenoaks in Kent, near the Tunbridge Wells headquarters of NPI. It tried and failed to buy the French insurer, Gan, earlier this year.

Estimates of NPI's price range between £1bn and £2bn.

The successful bidder is almost certain have to make a significant injection into the mutual's life fund to correct the financial weakness that lies behind its decision to abandon mutuality after more than 160 years.

NPI yesterday declined to comment on suggestions the injection may need to be as high as £1bn.

Analysts expect the organisation's 600,000 policyholders to receive windfalls of between £1,000 and £2,000 as a result of the sale.

Rivals are wary as Aggregate stalks Tarmac

By Jonathan Guthrie

A mooted merger of Aggregate Industries with larger rival Tarmac could be challenged by other big building materials producers. These fear the merged entity would adopt the same aggressive pricing that has allowed Aggregate Industries to increase its market share at their expense.

The effect on competitors' margins, until now dismissed as insignificant, would be considerably greater if the price pressure came from a business worth £1.66bn, more than twice Aggregate Industries' present capitalisation.

With construction growth slowing, building materials producers are terrified of returning to the abysmal market of the early 90s, when they slashed prices in an effort to retain a share of orders that were falling in response to the recession.

RMC Group is believed to be one of the businesses considering a bid of its own for Tarmac if the combination with Aggregate Industries gets further than the preliminary talks announced last month. Others are watching closely.

Kevin Cammack, an analyst at Merrill Lynch, said rumours of a bid from RMC were "indicative of what many industry participants are saying. . . They do not want a cosy merger between Aggregate Industries and Tarmac that would create a larger, more competent competitor".

Mr Cammack said: "Aggregate Industries has been very successful in picking off smaller bits of business, particularly in the London market, but the effect has not been big enough to start a national price war."

That could change if the two groups combine through a merger in which shareholders in one group swap their shares for equity in the enlarged business. Though geared at about 50 per cent, the new concern would have the resources to keep pressure up on prices for key products such as gravel, asphalt and concrete.

The industry would be a lot more comfortable with a hostile bid by Aggregate Industries for Tarmac which included a cash offer. The cost of buying Tarmac shares would weaken Aggregate Industries' balance sheet, restricting its ability to undercut other producers.

A contested bid, won by Aggregate Industries, might be the best outcome for the UK's big producers, leaving the group struggling to service its debt as volumes fell. The problem they face is that if one of them makes a bid, it could win. The victor would then have Tarmac's heavily indebted construction business to dispose of at a time when asset values are falling. And it would also have to sell core assets in building materials to meet the concerns of the competition authorities.

For this reason, Hanson, busy pursuing rapid expansion in the buoyant US market, is unlikely to throw its hat into the ring. RMC, tipped last year as a counter-bidder to Lafarge of France ahead of its £1.8bn hostile takeover of Redland, might not be put off so easily. As Mr Cammack pointed out, the group, capitalised at about £1.7bn, cheerfully sold off about half of the cement assets it bought recently in Germany for £150m.

A takeover of Tarmac by RMC would pose the worst competition problems in ready-mix concrete, where the groups have estimated market shares of 10 and 30 per cent respectively. But an industry executive, who asked not to be named, said: "In the interests of shareholders, RMC could not be expected to stand to one side if Aggregate Industries bids for Tarmac."

However, a whole series of different combinations between building materials producers seem possible. Both Tarmac and Aggregate Industries were believed to be in talks with a range of possible partners at the end of last week.

COMMENT

Great Universal truths

David Wolfson's energetic tenure at Great Universal Stores has had two features: the revitalisation of home shopping, through the purchase of Argos, and the development of an information services business. It is no surprise that he should have decided that vehicle financing does not fit into what is increasingly a database company. By this reckoning, next on the chopping block will be Burberry's and the South African retail furniture business. Ironically, it is their very retail character which makes them stand out in a company apparently on a one-way path out of the retail sector. A price of £1.2bn will help GUS pay down a chunky debt bill, but given Lord Wolfson's keen eye for the bargain, don't reckon against a further acquisition.

UK Digital television

Retailers and leisure groups grumble that consumers are tightening purse strings. But BSkyB's results last week suggest that for the right product, the money is there. True, BSkyB has poured funds into investment and marketing, but 100,400 digital subscribers in one month, of which 30,000 were new customers, is still good going.

Digital pay-television in the UK will succeed. The case for pay-television is proven and customers will have to switch to digital technology when the government switches off analogue. For BSkyB the issue is whether its digital offering can reignite consumer appetite for its satellite dishes. Dish subscribers are far more profitable to BSkyB than cable or terrestrial viewers, even if all are watching BSkyB programmes.

Successful pay-television requires subscriber growth. To hit expectations of 6m digital subscribers by 2003, the company will probably need to improve the take-up rate of newcomers. But that should be possible, especially as marketing spend shifts from persuading BSkyB's existing analogue customers to switch.

The potential fly in the ointment will be the launch of the rival On Digital service, where early inquiries have also been encouraging. In France, consumers have shown an appetite for a cheap digital offering where channels feature in the dozens rather than the hundreds. This is On Digital's pitch too. By offering tailored, cheaper digital packages, as well as all-singing/all-dancing ones, BSkyB is clearly not taking any chances.

NEWS DIGEST

BUILDING SERVICES

Connaught to raise £3m from flotation on Aim

Connaught, the building services group bought by its managers in 1996, hopes to raise more than £3m, mainly for expansion, by placing about a third of its shares on Aim. They are likely to be priced at 125p, giving the group a market capitalisation of some £10m. Trading is expected to start on December 1.

Pre-tax profits doubled to £1.3m in the year to August 31 on sales of £39m (£24m), according to the pathfinder prospectus published today. The company's broker is forecasting sales growth of 12 per cent next year and profits growth of 18 per cent.

Mark Tincknell, managing director, will own 25 per cent of the enlarged share capital. Three other directors will own 25 per cent them after taking £100,000 from the flotation. Midland Growth Capital, the venture capitalist company, will retain 13 per cent. **Sheila Jones**

SUPPORT SERVICES

Hays expands in France

Hays, the business services group, has expanded its French activities with the purchase of Sitinfo for an initial £9.6m cash, plus a profit-related payment of up to £2.9m.

MEDIA

Taylor Nelson buys in east Europe

Taylor Nelson Sofres, the world's fourth-largest market information company, has bought stakes in Polish and Bulgarian businesses. On Friday, it completed the £890,000 purchase of 60 per cent of OBOP, a leading Polish market research company owned by Polish Television. It is also paying £254,000 for 34 per cent of Balkan Social Surveys, in Bulgaria.

CONTRACTS & TENDERS

“We innovate to improve the quality of life”

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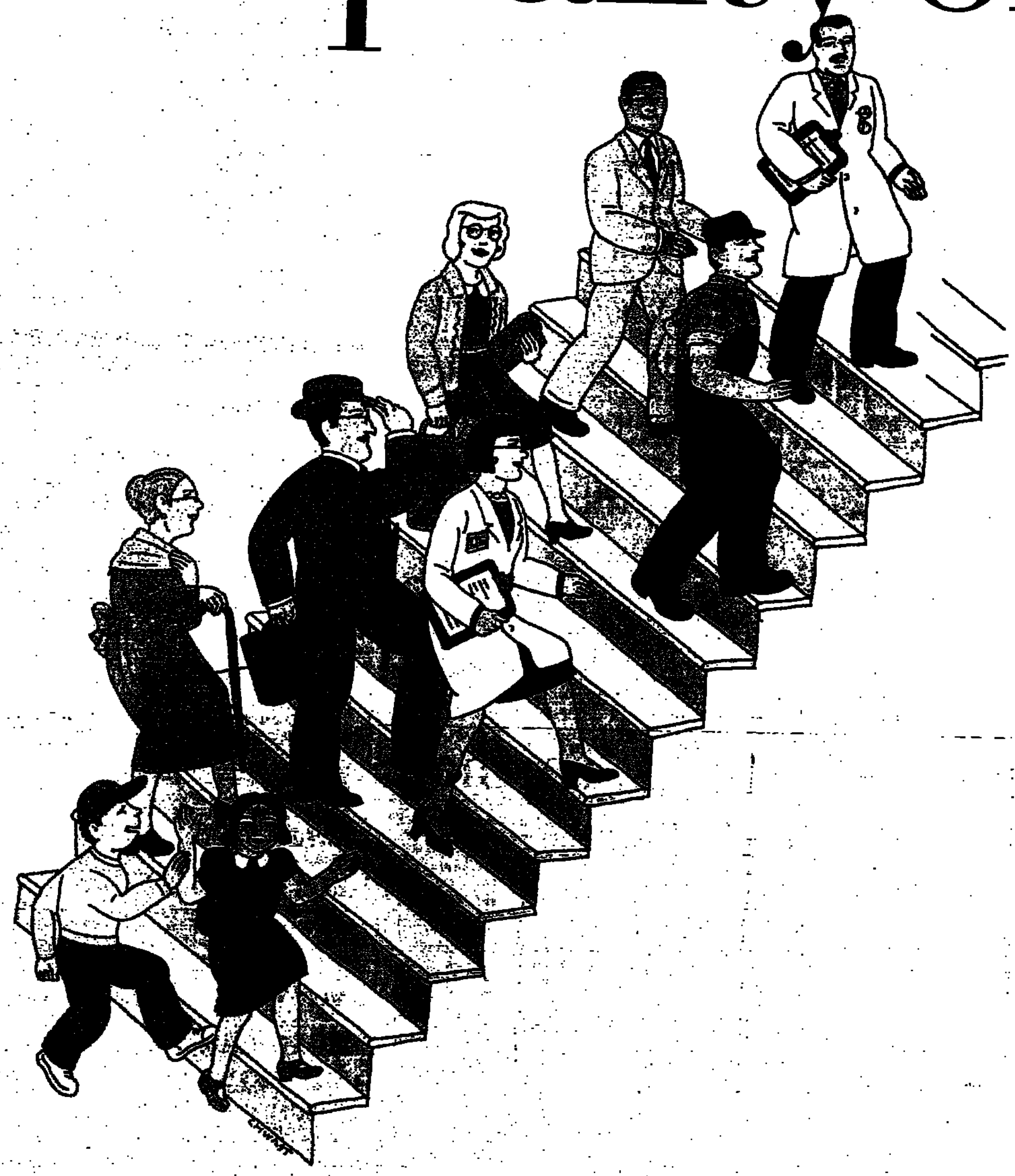

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ENTERTAINMENT SEC GIVES APPROVAL

Seagram wins US go-ahead on PolyGram

By Alice Rawsthorn in London and Gordon Cramb in Amsterdam

Seagram has got the go-ahead from the US Securities and Exchange Commission to complete its $10.4bn bid for PolyGram, the Dutch music and film company.

Approval came more than a month later than the Canadian drinks and entertainment group had hoped.

The news is a relief for Seagram, which agreed terms to acquire PolyGram in May, but can not begin the physical process of merging the latter's music interests with its Universal Music subsidiary until it has formally concluded the takeover.

Seagram originally hoped to secure SEC approval for the acquisition, the biggest in music industry history, by late September and to finalise the deal on October 31.

However, the clearance process ran into unexpected procedural difficulties. Seagram must now allow 20 working days to secure final shareholder approval. The earliest it can hope to complete the transaction is December 1.

Seagram's share price and that of Philips, the Dutch consumer electronics group from which it is buying 75 per cent of PolyGram, have fallen because of investors' concern about the SEC delays.

The shares were also affected by speculation that Seagram, which agreed terms for its bid before the recent financial market turbulence and will have to pay an extra $750m because of subsequent currency changes, might seek to renegotiate its offer of Fl 115 a share.

Seagram previously secured a cut in its original offer of Fl 117, when PolyGram's second-quarter performance fell below expectations.

However, Cor Boonstra, Philips president, insisted in an interview with the Financial Times that there was no question of a further price reduction. "No way," he said.

Mr Boonstra said that Seagram was satisfied with PolyGram's recent performance. PolyGram recently reported a healthy increase in third-quarter profits, and analysts expect a strong fourth-quarter performance thanks to a series of best-selling albums and hit films.

However, Seagram faces a tough task in restoring market confidence after completing the PolyGram deal. Its credit rating was downgraded last month by Moody's and Standard & Poors in light of the acquisition.

Seagram is expected to shed hundreds of jobs at PolyGram and Universal Music to attain annual savings of up to $300m in its enlarged music division.

Hoechst disposal seen as boost for European M&A

By Jane Martinson, Investment Correspondent

Investment bankers believe the European takeover market may have been revitalised by last week's DM3.13bn ($1.9bn) takeover of Herberts, the paints arm of Hoechst, by Du Pont, the US chemicals group.

The price paid by Du Pont was DM100m higher than the DM3.03bn originally offered for Herberts by Kohlberg Kravis Roberts, the US leveraged buy-out group.

Hoechst's talks with KKR ended when the US group tried to reduce the price by 15 per cent because of falling stock prices and market turmoil since the Russia crisis this summer.

The deal would have been Europe's largest leveraged deal and a ground-breaking move in Germany, where industry tends to be suspicious of financial buyers.

The subsequent success of Du Pont, which had expressed an interest before KKR entered exclusive talks, provided a fillip to financiers looking for deals in Europe.

One investment banker said yesterday: "Although we have had all sorts of turbulence in the market, this deal shows that M&A deals are still capable of being done at the same value as before."

In particular, bankers believe that the rationale for cross-border consolidation in Europe has not been hurt too badly by the past three months. "Companies still want to cut costs and compete globally. They are prepared to do this in spite of share prices which are far lower than they would have been earlier this year."

Hoechst, which was advised by Merrill Lynch, the US investment banker, is a good example of the rationale for further restructuring in Europe. Under Jürgen Dormann, chief executive, Hoechst is selling off its industrial chemicals activities to focus on life sciences.

The sale of Herberts is an important step in this strategy, but other businesses remain. Celanese and Ticona have been earmarked for disposal and are due to be floated next year. However, Hoechst has indicated that, as markets have fallen, it is also looking at a trade sale.

The parent company's shares rose strongly at the beginning of last week on speculation that it was seeking a partner for HMR, its drugs arm that is now its chief business. Hoechst refused to comment.

In spite of such examples, however, several big deals have been called off since August and the record-breaking run of corporate transactions has tailed off.

Lighting a fuse under Norwegian banking

Svenska Handelsbanken's hostile bid for Fokus may scupper existing three-way merger plan, write **Tim Burt and Greg McIvor**

Market movers

Svenska Handelsbanken lobbed a well-aimed grenade into the Norwegian banking industry on Friday.

The hostile NKr5.09bn ($690m) takeover bid by Sweden's largest bank for Fokus Bank threatens to scupper a friendly three-way merger between Fokus, Christiania Bank and Postbanken that would create Norway's largest financial services group.

The cash offer and industrial logic behind the deal are attractive but hardly spectacular. The NKr70 a share proposal involves a 30 per cent premium for Fokus shareholders, while Handelsbanken has promised no job cuts and a degree of autonomy for Fokus's regional-based organisation should it accept. But the prospect of the earlier merger being frustrated has rocked the industry.

That deal, announced in September, followed a number of abortive consolidation moves in Norwegian banking, including overtures from Christiania to insurer Storebrand and the failed bid by Den norske Bank, Norway's largest lender, for Bnbank, the home loans institution.

Such deals foundered on shareholder and political resistance. The Norwegian government, committed to retaining financial services in regional cities, threatened to block any deal or merger that concentrated the industry in Oslo.

Aware of such concerns, both the Christiania-led merger and Handelsbanken's hostile deal emphasised plans to develop Fokus's strong presence in Trondheim, its home town in central Norway.

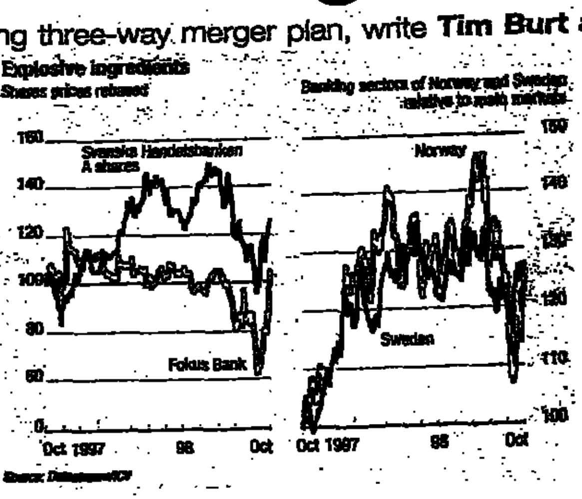
Indeed, Tom Ruud, the chief executive of Christiania, has vowed to move from Oslo to Trondheim along with the entire executive management team of the merged bank after the deal, which shareholders are due to vote on next month.

Handelsbanken, meanwhile, has promised to develop Trondheim as a regional banking centre within a decentralised organisation.

The attempts by both banks to placate local politicians and unions reflect the influence exercised by such interest groups over Norwegian mergers and acquisitions. Although most Norwegian banks are themselves the product of mergers, it has been largely a piecemeal process with few big deals to match those seen in neighbouring Sweden or Finland in recent years.

If Handelsbanken succeeds, that could change. It insists it has a strong chance of success, particularly as Fokus's overseas shareholders – accounting for 50 per cent of the stock – are likely to prefer a premium cash offer to the share-swap terms of the three-way merger. Moreover, Sparebanken NOR – known internationally as Union Bank of Norway – has already pledged its 10 per cent Fokus stake in favour of Handelsbanken's offer.

Arne Martensson: faces obstacles in pursuit of Fokus.



The Swedish bank also has a record of getting its way in such circumstances. Two years ago it scuppered a merger between Stadshypotek, the Swedish mortgage bank, and Skandia, the insurer, with a surprise SKr23bn ($2.9bn) cash bid for Stadshypotek.

Yet Arne Martensson, Handelsbanken chief executive, faces formidable obstacles in his pursuit of Fokus.

Perhaps the biggest hurdle is the strong nationalistic sentiment that runs through Norway and is directed primarily at Swedes. Nationalistic misgivings have stopped several Swedish takeovers in the past.

Some politicians in Trondheim have already spoken out against the deal on these grounds, despite Handelsbanken's assurances that no jobs would be cut. Fokus's employee organisation is understood to oppose the tie-up for similar reasons.

Handelsbanken's chances are further constrained by a legal requirement in Norway that any financial services takeover bid must be accepted by more than 90 per cent of the target's shareholders.

"It is an attractive bid, but getting more than 90 per cent will be almost impossible. Some of the Norwegian shareholders just hate the Swedes," says one banker involved in the rival three-way merger.

Mr Ruud at Christiania refuses to discuss such emotive issues, but claims that Handelsbanken's bid promises none of the savings and synergies promised by the merger – a view rejected by Handelsbanken.

"The key question in all of this is whether Christiania will be forced to counter-bid following Handelsbanken's approach," says Matthew Czepliewicz, European banking analyst at Salomon Smith Barney in London.

If Christiania offers Fokus more attractive terms, it might persuade the Norwegian government to come down in favour of the three-way merger.

Although it wants to appear even-handed, Oslo has previously opposed transactions that would transfer key financial institutions into foreign hands.

"The government will be dismayed by [Handelsbanken's bid], because it means they could lose the prospect of Norway's biggest financial institution moving to Trondheim," the banker said. Most analysts, though, believe the Norwegian government would allow the acquisition if Handelsbanken achieved 90 per cent acceptance.

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For Handelsbanken, the addition of Fokus would be a fillip to its expansion in Norway. It has being building up a distribution network there for about 10 years but progress has been slow.

By acquiring Fokus, it would not only become a strong competitor in the Norwegian market but signal a possible wave of overseas interest in Norwegian banks.

Given the rival domestic merger proposal, the Norwegian banking industry clearly believes consolidation is required. The question is whether that will be dictated by industrial logic and price, or by political and nationalistic considerations.

Merrill Lynch fires fresh round in cyber-broking battle

The US firm is making its database of corporate research available free on the web, writes **John Authers**

The battle for US retail investors' dollars being waged online will intensify today when Merrill Lynch, the dominant US retail broker for many decades, makes its entire database of corporate research available free through a new website, for a four-month trial period.

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And he is adamant about the limited aims of the new venture: "This isn't about technology changing the business but about the roles of individuals in the process."

OIL WEAK PRICES TAKE TOLL ON NORWEGIAN GROUP

Statoil warns on full year

By Valeria Sköld in Oslo

Statoil, the Norwegian state oil company, said on Friday that this year's profit would be significantly lower than in 1997.

The warning came as the company reported that nine-month net profits were down by more than half as weak oil prices took their toll.

A fall in average Brent crude oil prices to $13.30 a barrel, from $19.20 a year earlier, contributed to a 58 per cent fall in nine-month net profits, from NKr3.1bn in the same period last year to NKr1.3bn ($176m).

Low oil prices were blamed for NKr4.2bn of the fall in operating profits, which fell 46 per cent, from NKr13.2bn to NKr7.2bn.

The decline came in spite of a 4 per cent increase in revenues to NKr98.1bn.

Harald Norvik, president and chief executive of Statoil, said results after the third quarter would be poor, and substantially weaker for the year as a whole.

Low oil prices were the single most important reason. "We can't reckon with significant increases," he said.

The poor figures follow a string of weak results from Norwegian oil companies. Norsk Hydro, Norway's largest industrial group, and Saga Petroleum both reported a drop in profits last month and said they were preparing for oil prices to continue at today's low levels into next year.

A slight decline in Statoil's oil production and higher exploration costs also contributed to the overall fall, along with a NKr300m write-down on the Lufeng field in the South China Sea, a NKr500m writedown on the offshore Varg field in Norway, and the cost of cancelling the West Navion II drill ship project.

The sale of oil was 2m barrels a day in the first nine months, against 2.1m for the same period last year, while daily gas sales rose from 20.5m cu m to 23.5m cu m.

Operating profit for the exploration and production business sank from NKr12bn to NKr6.6bn.

Its refining and marketing business, which had the largest turnover in the period, fell from NKr1.2bn to NKr400m.

Petrochemicals, its only business area to improve, rose 62 per cent to NKr435m after start-up costs at its Tjeldbergodden plant in mid-Norway last year hit its methanol business.

Air Canada loses more than expected

By Scott Morrison in Toronto

Air Canada reported an unexpectedly large third-quarter loss of C$61m (US$39m), or 32 cents a share, after a two-week pilots' strike in September.

The airline, which had earnings of C$181m, or 97 cents, during the same period last year, had been expected to lose 22 cents per share. It had warned that the strike would lead to losses in the last two quarters of the year, but the poorer than expected results sent the group's shares down almost 7 per cent on Friday.

The company said it lost C$212m in operating income as a result of the strike, slightly less than the C$240m initially estimated. It said the strike cost the airline C$133m in net income.

Air Canada said customers had responded favourably to incentives designed to attract passengers back to the airline, but it still expected operating and net losses for the fourth quarter.

Lamar Durrett, chief executive, said changing economic conditions were forcing the company to make fundamental changes to its business plan in 1999, including reviewing all routes and aircraft deployment to produce the highest returns. It might alter the composition of its fleet or defer delivery of new aircraft.

CONTRACTS & TENDERS

NEWS DIGEST

FOOD

Kellogg restructuring hits third-quarter net profits

Kellogg, the US cereals and food group, saw after-tax profits fall to \$141.9m in the third quarter of 1998, from \$207.2m a year earlier. Earnings per share were 35 cents, compared with 50 cents, while sales were static at \$1.8bn.

However, the company, which had already warned of a weak performance, attributed the fall to increased investment in marketing and product-related initiatives and restructuring efforts designed to reduce costs next year. It also said unfavourable currency movements clipped about 6 cents a share from earnings in the third quarter, and reduced sales by about 1 per cent. **Nikki Tait, Chicago**

OFFICE SERVICES

ISS in Swiss joint venture

ISS, the Danish office services and cleaning group, is setting up a joint venture company in Switzerland with Swisscom Real Estate, a subsidiary of the Swiss telecommunications group. The new company will oversee the cleaning and maintenance of Swisscom's offices.

Under the deal, some 1,600 Swisscom employees will join the company, which will be 80 per cent owned by ISS. Waldermar Schmidt, ISS chief executive, said the joint venture would boast annual sales of SFr25m (\$18.5m) and seek an operating margin of 6 per cent.

He described the deal as more promising than renewable service contracts, and it would deliver much longer-term returns. "This is the largest deal of its kind signed by us and represents a new way of dealing with the customer." **Tim Burt, Stockholm**

STEEL

Venezuelan plant inaugurated

An international consortium led by Japan's Kobe Steel (with a 50 per cent stake) on Friday inaugurated a \$271m hot-briquetted iron (HBI) plant in south-eastern Venezuela. The plant has an annual production capacity of 1m tonnes and marks a growing investment in Venezuela's metallurgy sector, which boasts low energy and raw material costs.

The consortium includes Venezuela's state-owned CVG Ferrominera Orinoco, Mexico's Tamsa, and the International Finance Corporation.

With the help of foreign investment, Venezuela is to become the world's leading exporter of HBI by boosting its production from an estimated 4.7m tonnes in 1997 to about 9.5m tonnes by 2002.

World demand for HBI, which is used in steel production, has been growing considerably as the supply of high quality scrap metal is insufficient to meet growing demand of electric steel-making and new mini-mills coming on line.

Australia's BHP and Venezuela's Sivensa are constructing one of two further HBI plants yet to come on line. **Raymond Colitt, Caracas**

OIL SERVICES

Aker Maritime earnings jump

Aker Maritime, a Norwegian oil services company held by industrial conglomerate Aker RGI, said nine-month net profit more than doubled, from NKr106m to NKr291m (\$39m), as profits in its US and UK units outpaced earnings at home. Operating profit rose from NKr198m to NKr530m, helped largely by a doubling of profit from Houston-based Aker Maritime to NKr209m. Total group revenue rose 58 per cent to NKr14.384bn.

The company's largest unit by turnover, EPC Norway, returned to profit at NKr140m, compared with a NKr62m loss last year. The company took a NKr120m provision on the offshore Norwegian Njord oil platform project in the second quarter of 1997. However, third-quarter net profit slid from NKr59m to NKr51m, partly due to a NKr80m loss from projects in products and well services using the RamRig drilling unit.

The company also announced that Norsk Hydro, the country's largest industrial group, submitted a claim for an additional NKr225m from Aker Maritime relating to the Njord project. The guarantee claim raises Norsk Hydro's total counter-claim to almost NKr600m, versus Aker Maritime's original claim of about NKr900m to cover project cost overruns. **Valeria Sköld, Oslo**

SPORTING GOODS

Austrian group set to break even

Head-Tyrolia-Mares, the Austrian sporting goods group, said it would break even this year following a deal on debt forgiveness with its creditor banks earlier this year. Mr Johan Eliasch, the Swedish investor who acquired the company from Austria Tabak three years ago when it was nearly bankrupt, said he expected a substantial net profit for 1999.

He said he planned to launch an initial public offering on the Frankfurt stock exchange or Nasdaq in the US next year, assuming the global equity markets become more stable. Proceeds would fund acquisitions in the sporting goods industry.

The maker of Head skis and tennis racquets, Tyrolia bindings and Mares scuba diving equipment reported a strong year, with higher sales and operating earnings despite a decline in its markets, Mr Eliasch said.

Revenues for 1998 increased 6 per cent to \$305m while operating profit more than doubled from \$9m to \$21m, he said, thanks to the success of its carving skis and titanium tennis racquets, which captured a good share of the pivotal US market from the market leaders Prince and Wilson.

Mr Eliasch said his goal was to become number one in the world racquet market and to keep the lead in carving skis, which will make up 90 per cent of the total ski market next year. HTM also expected to pass Salomon of France to become the world's top bindings maker, he said.

The group's total debt fell to \$145m, from a peak of \$366m in 1994. In June, its creditor banks wrote off a total of \$50m in HTM debt; in return, Mr Eliasch injected \$17m into the company, of which he now owns 84 per cent. This met one of the conditions set by the European Commission when it gave a green light to a Sch1.59bn (\$136m) state subsidy for HTM in 1996 that was needed to keep the heavily indebted company afloat. **Eric Frey, Vienna**

EMERGING MARKETS G7 MEASURES BUOY CONFIDENCE BUT INVESTORS STILL NERVOUS OVER BUDGET PROPOSALS

Panic gives way to uneasy calm in Brazil

By Richard Lapper
Latin America Editor

Much of the panic that swept through the Brazilian markets in the wake of Russia's default on its debts in mid-August has given way to an uneasy calm. The flight of capital that threatened a devaluation of the real has slowed to a trickle.

The announcement of new measures to help vulnerable economies by the Group of Seven industrialised countries on Friday, and hints from US officials that Brazil could be the first beneficiary, have buoyed confidence further, with the Bovespa, Brazil's main stock market index, rising by 7.8 per cent.

Nevertheless, investors face some nervous times over the next two months as President Fernando Henrique Cardoso battles to win the approval of Congress and state governors for his ambitious budget proposals, which were announced early last week.

The market's response to the budget package gave a hint of some of the potential troubles to come.

Even though the package was exactly in line with expectations – aiming for a reduction of the fiscal deficit by 2.6 per cent of gross domestic product next year – stock prices fell by nearly 5 per cent on Wednesday and Thursday.

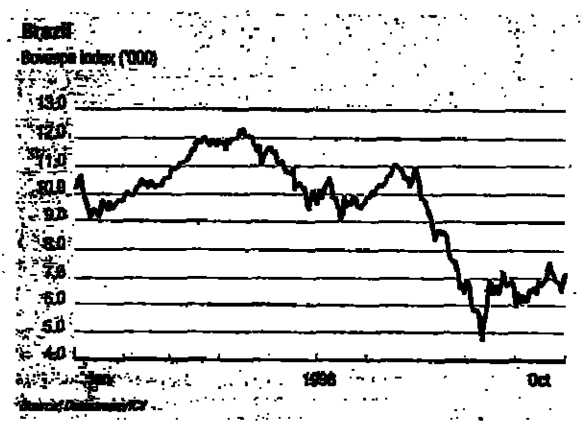
Partly, that was because the markets had already discounted the package, most of which had been widely leaked in the local press.

President Cardoso had made no secret of the need for draconian fiscal measures during his election campaign and his re-election early last month was, perhaps, the main factor behind the rally during October.

Since September 10, when the market fell to its low for the year of 4,760 (a drop of more than 50 per cent since July 30), share prices have appreciated by nearly 60 per cent, while yields on Brazil's international bonds have fallen by about 10 percentage points.

Yields on the par bond – one of Brazil's Brady instruments – reached 26.17 per cent on September 10 but in the past three weeks have ranged between 15 and 18 per cent. In addition, in spite of last week's ups and downs, volatility levels have fallen quite sharply.

According to analysts at Deutsche Bank in New York,



the one-month historical volatility of Brazil's widely traded C bond – another Brady – has fallen from 90 per cent to under 40 per cent over the past month.

Nevertheless, investors were disappointed with the package for two reasons.

First, some analysts argue that the Brazilian government needs to "overshoot" to address a perceived problem of credibility, stemming largely from its failure to implement fully fiscal measures promised last October. Some suggest that one way to have addressed this would have been to announce an acceleration of the privatisation programme.

The market's reaction showed that Brazil is "now paying the price for its credibility deficit", said Paulo Leme, head of emerging markets research at Goldman Sachs in New York.

Second, many investors still fear that, in spite of its commitment to fiscal reform, the government could still find it difficult to persuade Brazil's fractious Congress to accept change.

Although the President can usually count on a majority of congressional deputies, the alliance is an uneasy one. Some of the measures in the fiscal package require constitutional change and can only be put into practice if three-fifths of congressmen vote in favour.

Local press reports indicate that even congressmen who are members of parties formally backing the president are opposed to some of the measures.

President Cardoso could also face problems in some states where he must rely on governors to implement the cuts ordered by the federal government.

Last Sunday, although an ally of the president retained São Paulo state, left-wing opponents gained ground elsewhere. Indeed, President Cardoso lost control of three large southern states – Minas Gerais, Rio Grande do Sul and Rio de Janeiro.

However, many of these doubts seemed to have been forgotten by the end of the week, after the G7 announcement of a new IMF facility for countries facing external pressures.

Full details of how the facility will work have yet to emerge, but the G7 said: "The central element would be the establishment of an enhanced IMF facility which would provide a contingent short-term line of credit for countries pursuing strong IMF-approved policies."

However, initial reports indicated that it was designed to support countries with good economic fundamentals that are threatened with contagion – what one official called "innocent bystanders", rather than those such as Brazil, whose economic fundamentals – in particular a budget deficit of more than 7 per cent of GDP – have been a source of concern in the markets for some time.

Moreover the new facility has still to be approved, raising the question of whether it will be in place and available in time for Brazil.

Nonetheless, US officials have hinted that Brazil would be able to benefit, giving rise to speculation that money from the new facility might be used to increase the size of the financial package being arranged for Brazil by the IMF.

The worry though is that sentiment remains fragile. With most foreign investors on the sidelines, trading volume continue to be thin.

In spite of its rally, the Bovespa is still nearly 50 per cent lower than where it was at the beginning of last October. "In a distressed market where assets are cheap it doesn't take much to move things," cautions Mr Leme.

ENTERTAINMENT SEC GIVES APPROVAL

Seagram wins US go-ahead on PolyGram

By Alice Rawsthorn in London and Gordon Cramb in Amsterdam

Seagram has got the go-ahead from the US Securities and Exchange Commission to complete its $10.4bn bid for PolyGram, the Dutch music and film company.

Approval came more than a month later than the Canadian drinks and entertainment group had hoped.

The news is a relief for Seagram, which agreed terms to acquire PolyGram in May, but can not begin the physical process of merging the latter's music interests with its Universal Music subsidiary until it has formally concluded the takeover.

Seagram originally hoped to secure SEC approval for the acquisition, the biggest in music industry history, by late September and to finalise the deal on October 31.

However, the clearance process ran into unexpected procedural difficulties. Seagram must now allow 20 working days to secure final shareholder approval. The earliest it can hope to complete the transaction is December 1.

Seagram's share price and that of Philips, the Dutch consumer electronics group from which it is buying 75 per cent of PolyGram, have fallen because of investors' concern about the SEC delays.

The shares were also affected by speculation that Seagram, which agreed terms for its bid before the recent financial market turbulence and will have to pay an extra $750m because of subsequent currency changes, might seek to renegotiate its offer of Fl 115 a share.

Seagram previously secured a cut in its original offer of Fl 117, when PolyGram's second-quarter performance fell below expectations.

However, Cor Boonstra, Philips president, insisted in an interview with the Financial Times that there was no question of a further price reduction. "No way," he said.

Mr Boonstra said that Seagram was satisfied with PolyGram's recent performance. PolyGram recently reported a healthy increase in third-quarter profits, and analysts expect a strong fourth-quarter performance thanks to a series of best-selling albums and hit films.

However, Seagram faces a tough task in restoring market confidence after completing the PolyGram deal. Its credit rating was downgraded last month by Moody's and Standard & Poors in light of the acquisition.

Seagram is expected to shed hundreds of jobs at PolyGram and Universal Music to attain annual savings of up to $300m in its enlarged music division.

Hoechst disposal seen as boost for European M&A

By Jane Martinson, Investment Correspondent

Investment bankers believe the European takeover market may have been revitalised by last week's DM3.13bn ($1.9bn) takeover of Herberts, the paints arm of Hoechst, by Du Pont, the US chemicals group.

The price paid by Du Pont was DM100m higher than the DM3.03bn originally offered for Herberts by Kohlberg Kravis Roberts, the US leveraged buy-out group.

Hoechst's talks with KKR ended when the US group tried to reduce the price by 15 per cent because of falling stock prices and market turmoil since the Russia crisis this summer.

The deal would have been Europe's largest leveraged deal and a ground-breaking move in Germany, where industry tends to be suspicious of financial buyers.

The subsequent success of Du Pont, which had expressed an interest before KKR entered exclusive talks, provided a fillip to financiers looking for deals in Europe.

One investment banker said yesterday: "Although we have had all sorts of turbulence in the market, this deal shows that M&A deals are still capable of being done at the same value as before."

In particular, bankers believe that the rationale for cross-border consolidation in Europe has not been hurt too badly by the past three months. "Companies still want to cut costs and compete globally. They are prepared to do this in spite of share prices which are far lower than they would have been earlier this year."

Hoechst, which was advised by Merrill Lynch, the US investment banker, is a good example of the rationale for further restructuring in Europe. Under Jürgen Dormann, chief executive, Hoechst is selling off its industrial chemicals activities to focus on life sciences.

The sale of Herberts is an important step in this strategy, but other businesses remain. Celanese and Ticona have been earmarked for disposal and are due to be floated next year. However, Hoechst has indicated that, as markets have fallen, it is also looking at a trade sale.

The parent company's shares rose strongly at the beginning of last week on speculation that it was seeking a partner for HMR, its drugs arm that is now its chief business. Hoechst refused to comment.

In spite of such examples, however, several big deals have been called off since August and the record-breaking run of corporate transactions has tailed off.

Lighting a fuse under Norwegian banking

Svenska Handelsbanken's hostile bid for Fokus may scupper existing three-way merger plan, write **Tim Burt and Greg McIvor**

Market movers

Svenska Handelsbanken lobbed a well-aimed grenade into the Norwegian banking industry on Friday.

The hostile NKr5.09bn ($690m) takeover bid by Sweden's largest bank for Fokus Bank threatens to scupper a friendly three-way merger between Fokus, Christiania Bank and Postbanken that would create Norway's largest financial services group.

The cash offer and industrial logic behind the deal are attractive but hardly spectacular. The NKr70 a share proposal involves a 30 per cent premium for Fokus shareholders, while Handelsbanken has promised no job cuts and a degree of autonomy for Fokus's regional-based organisation should it accept. But the prospect of the earlier merger being frustrated has rocked the industry.

That deal, announced in September, followed a number of abortive consolidation moves in Norwegian banking, including overtures from Christiania to insurer Storebrand and the failed bid by Den norske Bank, Norway's largest lender, for Bnbank, the home loans institution.

Such deals foundered on shareholder and political resistance. The Norwegian government, committed to retaining financial services in regional cities, threatened to block any deal or merger that concentrated the industry in Oslo.

Aware of such concerns, both the Christiania-led merger and Handelsbanken's hostile deal emphasised plans to develop Fokus's strong presence in Trondheim, its home town in central Norway.

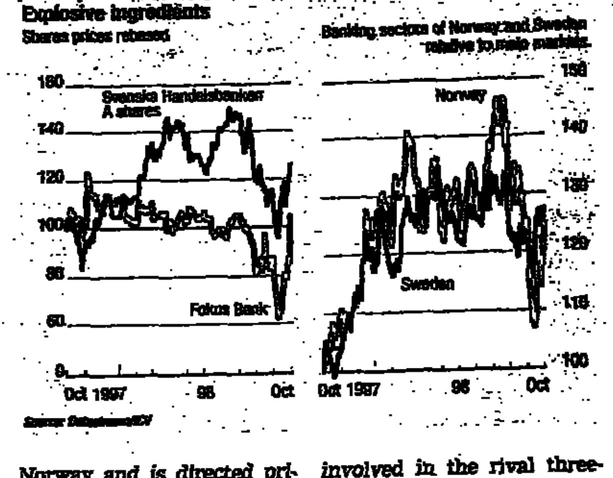
Indeed, Tom Ruud, the chief executive of Christiania, has vowed to move from Oslo to Trondheim along with the entire executive management team of the merged bank after the deal, which shareholders are due to vote on next month.

Handelsbanken, meanwhile, has promised to develop Trondheim as a regional banking centre within a decentralised organisation.

The attempts by both banks to placate local politicians and unions reflect the influence exercised by such interest groups over Norwegian mergers and acquisitions. Although most Norwegian banks are themselves the product of mergers, it has been largely a piecemeal process with few big deals to match those seen in neighbouring Sweden or Finland in recent years.

If Handelsbanken succeeds, that could change. It insists it has a strong chance of success, particularly as Fokus's overseas shareholders – accounting for 50 per cent of the stock – are likely to prefer a premium cash offer to the share-swap terms of the three-way merger. Moreover, Sparebanken NOR – known internationally as Union Bank of Norway – has already pledged its 10 per cent Fokus stake in favour of Handelsbanken's offer.

Arne Martensson: faces obstacles in pursuit of Fokus.



The Swedish bank also has a record of getting its way in such circumstances. Two years ago it scuppered a merger between Stadshypotek, the Swedish mortgage bank, and Skandia, the insurer, with a surprise SKr23bn ($2.9bn) cash bid for Stadshypotek.

Yet Arne Martensson, Handelsbanken chief executive, faces formidable obstacles in his pursuit of Fokus.

Perhaps the biggest hurdle is the strong nationalistic sentiment that runs through Norway and is directed primarily at Swedes. Nationalistic misgivings have stopped several Swedish takeovers in the past.

Some politicians in Trondheim have already spoken out against the deal on these grounds, despite Handelsbanken's assurances that no jobs would be cut. Fokus's employee organisation is understood to oppose the tie-up for similar reasons.

Handelsbanken's chances are further constrained by a legal requirement in Norway that any financial services takeover bid must be accepted by more than 90 per cent of the target's shareholders.

"It is an attractive bid, but getting more than 90 per cent will be almost impossible. Some of the Norwegian shareholders just hate the Swedes," says one banker involved in the rival three-way merger.

Mr Ruud at Christiania refuses to discuss such emotive issues, but claims that Handelsbanken's bid promises none of the savings and synergies promised by the merger – a view rejected by Handelsbanken.

"The key question in all of this is whether Christiania will be forced to counter-bid following Handelsbanken's approach," says Matthew Czepliewicz, European banking analyst at Salomon Smith Barney in London.

If Christiania offers Fokus more attractive terms, it might persuade the Norwegian government to come down in favour of the three-way merger.

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By Valeria Sköld in Oslo

Statoil, the Norwegian state oil company, said on Friday that this year's profit would be significantly lower than in 1997.

The warning came as the company reported that nine-month net profits were down by more than half as weak oil prices took their toll.

A fall in average Brent crude oil prices to $13.30 a barrel, from $19.20 a year earlier, contributed to a 58 per cent fall in nine-month net profits, from NKr3.1bn in the same period last year to NKr1.3bn ($176m).

Low oil prices were blamed for NKr4.2bn of the fall in operating profits, which fell 46 per cent, from NKr13.2bn to NKr7.2bn.

The decline came in spite of a 4 per cent increase in revenues to NKr93.1bn.

Harald Norvik, president and chief executive of Statoil, said results after the third quarter would be poor, and substantially weaker for the year as a whole.

Low oil prices were the single most important reason. "We can't reckon with significant increases," he said.

The poor figures follow a string of weak results from Norwegian oil companies. Norsk Hydro, Norway's largest industrial group, and Saga Petroleum both reported a drop in profits last month and said they were preparing for oil prices to continue at today's low levels into next year.

A slight decline in Statoil's oil production and higher exploration costs also contributed to the overall fall, along with a NKr300m writedown on the Lufeng field in the South China Sea, a NKr500m writedown on the offshore Varg field in Norway, and the cost of cancelling the West Navion II drill ship project.

The sale of oil was 2m barrels a day in the first nine months, against 2.1m for the same period last year, while daily gas sales rose from 20.5m cu m to 23.5m cu m.

Operating profit for the exploration and production business sank from NKr12bn to NKr6.6bn.

Its refining and marketing business, which had the largest turnover in the period, fell from NKr1.2bn to NKr400m.

Petrochemicals, its only business area to improve, rose 62 per cent to NKr435m after start-up costs at its Tjeldbergodden plant in mid-Norway last year hit its methanol business.

Air Canada loses more than expected

By Scott Morrison in Toronto

Air Canada reported an unexpectedly large third-quarter loss of C$61m (US$39m), or 32 cents a share, after a two-week pilots' strike in September.

The airline, which had earnings of C$181m, or 97 cents, during the same period last year, had been expected to lose 22 cents per share. It had warned that the strike would lead to losses in the last two quarters of the year, but the poorer than expected results sent the group's shares down almost 7 per cent on Friday.

The company said it lost C$212m in operating income as a result of the strike, slightly less than the C$240m initially estimated. It said the strike cost the airline C$133m in net income.

Air Canada said customers had responded favourably to incentives designed to attract passengers back to the airline, but it still expected operating and net losses for the fourth quarter.

Lamar Durrett, chief executive, said changing economic conditions were forcing the company to make fundamental changes to its business plan in 1999, including reviewing all routes and aircraft deployment to produce the highest returns. It might alter the composition of its fleet or defer delivery of new aircraft.

CONTRACTS & TENDERS

ROMANIA
MINISTRY OF COMMUNICATIONS

Call For Tender

The Ministry of Communications hereby announces an international tender, for the granting of national license for construction and operation of a radiocommunications system, with multiple access, in TETRA technology, in the 410-430 Mhz band.

The tender book, containing the instructions for the wording and submission of the applications can be bought from the Ministry of Communications - the Directorate General for Regulations: Av. Libertăţii, no. 14/16, sector 5, Bucharest, tel. 40.1.4001103, beginning with: 02.11.1998.

The tender book will be issued after the payment of a fee, which represents the equivalent, of 300 USD, at the Romanian National Bank currency, from the day of payment, into the account of the Ministry of Communications, number: 602 11502501, open at the Romanian Trade Bank, Bucharest branch.

The deadline for the submission of the applications is 22.12.1998, at the above address.

The result of the tender will be announced in less than 45 days.

MARKETS WEEK

November 2 - November 8

NEW YORK

By Tracy Corrigan

US financial markets continued what Salomon Smith Barney analysts described as "their climb back from the cliff's edge" last week, despite mixed signals from economic data.

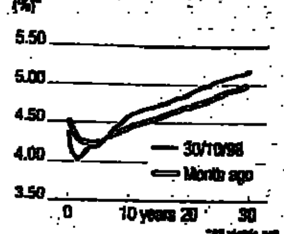
In the bond market, evidence that the economy slowed in October has provided some support, although some data, such as gross domestic product information, has been unfavourable for bonds.

Analysts will be looking to Friday's employment report for confirmation of weakness in the economy. According to Standard & Poor's MMS, analysts are expecting a 175,000 increase in October non-farm payrolls.

Also due on Friday are September consumer credit numbers, while factory orders figures for September are due on Wednesday.

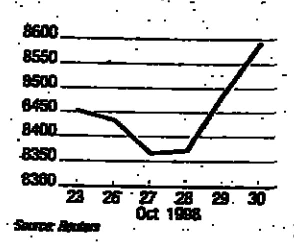
The market is hoping for a further easing in interest rates by the US Federal Reserve at its November 17 meeting. Analysts at Donaldson, Lufkin & Jenrette believe that the Fed will ease at the meeting "in response to the October statistics and out of a desire to maintain the buoyant stock market tone that emerged in the aftermath of the October 15 move." The Fed releases its Beige Book on Wednesday.

Benchmark yield curve (%)*



Source: Merrill Lynch — *All yields are market convention

Dow Jones Industrial Average



Source: Reuters

LONDON

By Philip Coggan

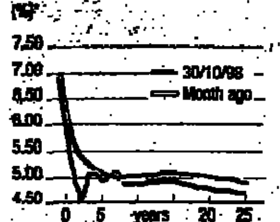
There will be no difficulty in persuading traders to "remember the fifth of November" this week, as that is when the Bank of England's monetary policy committee announces its decision on interest rates.

Fireworks will be let off in celebration if the Bank, as some hope, cuts rates by half a percentage point but if it surprises markets by leaving rates unchanged, there is a risk the night's bonfires will see governor Eddie George burnt in effigy.

If any members of the committee are in doubt about their decision, today's purchasing managers index, which has been gloomy about manufacturing, or Wednesday's services sector survey may provide the evidence they need. Thursday's numbers on manufacturing output and industrial production for September, due hours before the Bank announcement, are expected to show further monthly falls.

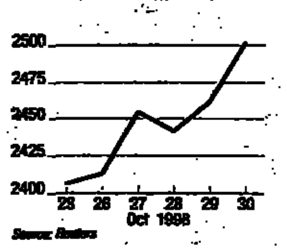
The chancellor will also produce his green budget statement, which will be watched for the Treasury's revised economic forecasts and, by the gilts market, for the projections on public finances. The likely economic slowdown in 1999 should worsen the fiscal position.

Benchmark yield curve (%)*



Source: Merrill Lynch — *All yields are market convention

FTSE All-Share Index



Source: Reuters

FRANKFURT

By Tony Barber

A series of big company results this week could determine whether Frankfurt's blue-chip Dax index is able to maintain the upward trend on which it ended an otherwise nerve-racking October.

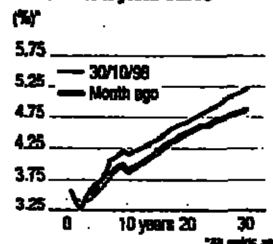
Investors are hoping Dresdner Bank, which publishes third-quarter results today, has survived the Asian and Russian financial crises better than its main rival, Deutsche Bank, whose third-quarter profits collapsed to DM70m from DM1.2bn.

The market is awaiting annual results on Thursday from electronics and industrial group Siemens, which has already warned of a DM1bn loss in semi-conductors but MAN, the trucks and machinery maker, which publishes annual results on the same day, is expected to turn in a strong performance.

Shares were propped up last week by a stronger dollar and an announcement from the G7 countries of measures to strengthen the world's financial structures.

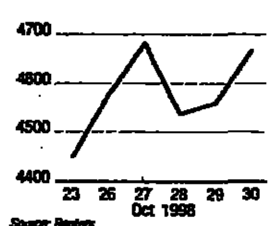
Baden-Württembergische Bank in Stuttgart believes these factors should offer early support to the market this week, but warns that stock exchange trading volumes need to be larger to ensure a clear recovery.

Benchmark yield curve (%)*



Source: Merrill Lynch — *All yields are market convention

Dax Index



Source: Reuters

TOKYO

By Alexandra Harney

The collapse in world stock markets and concern about the health of Japan's ailing banks pushed equity and bond markets in Tokyo to record lows last week. There are few hopeful signs the markets will improve this week, as political wrangling over a financial sector reform bill continues.

The Nikkei 225 average plunged to a 12-year low last week, breaking the psychologically important 14,000-point barrier.

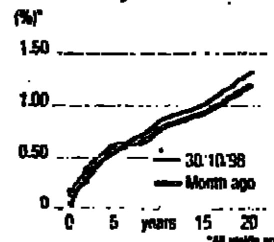
The yield on the 10-year government bond contract fell to a historic low of 1.06 per cent on Friday, and yields are likely to continue their slide without a convincing government response to banks' bad loan problems, analysts said.

Industrial production figures released on Monday are likely to be down as much as 9.1 per cent year-on-year, mainly because of high inventories, says Warburg Dillon Read.

July sales at large retail outlets, also due out on Monday, may fall sharply.

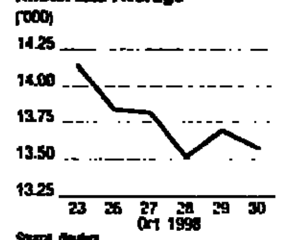
The July figure for new housing starts will be released on Monday and is likely to reflect sharp contraction in demand. August new car sales, on Tuesday, may also be weak, as well as July household spending data on Thursday.

Benchmark yield curve (%)*



Source: Merrill Lynch — *All yields are market convention

Nikkei 225 Average ('000)



Source: Reuters

COMPANIES DIARY

EDITED BY MARTIN BRICE

Joint venture expected to dilute Astra's earnings

Astra, the Swedish pharmaceutical company, should report improved nine-month earnings today, but this will do little to alleviate longer-term concerns, analysts said. Company observers are worried that Astra's new sales arrangement with Merck will dilute earnings ahead of the US patent expiry on its key anti-ulcer drug, Losec. Pre-tax profit for the first nine months is expected to increase 8 per cent to about SKr11.34bn ($1.46bn), according to the Swedish forecasting company, SIX Market Estimates.

Ingemar Kihlstroem, analyst with Aros Fondkommission in Stockholm, said Astra was generating a "rather weak profit development". He said Astra's profits might be diluted by 10 per cent in the second half of 1998 by its acquisition of Merck's share of a joint US sales and marketing venture. Under the agreement, which took effect on July 1, Merck gets royalties of some 30 per cent of the US sales of Losec, which generates about 50 per cent of Astra's revenues. However, Astra loses its US patent on Losec in 2001, which could expose nearly a third of sales to generic competition.

Losec sales in the US rose 37 per cent in the first nine months of 1998 to $2.17bn from $1.59bn a year earlier but third-quarter sales were down 6.1 per cent to $535m from $570m. *AP-DJ, Stockholm.*

● BAA is expected to produce a slight fall in second-quarter profits, leading to a flat first half. The culprit will be the rise in operating costs, which BT Alex Brown expects to advance by some 15 per cent in this quarter, due to impact of lower-margin revenues from Duty Free International, which was acquired last August.

Matthew O'Keefe at BT Alex Brown expects BAA to produce a 2 per cent fall to £169m (£282m) in the quarter.

TUESDAY

● Although the company created by the merger of BP with Amoco may not be part of the S&P 500 index in the US, the increase in BP's index weighting in the FTSE 100 index following the merger is likely to prompt a technical squeeze in the shares so analysts expect some short-term outperformance. The company is expected to produce its sixth successive quarter of decline as it reports underlying profits of £426m ($712m).

● Operating margins at Marks and Spencer have declined in the face of a 5.2 per cent wage award made earlier this year, which has resulted in operating costs rising by about 10 per cent while sales advanced just 3.3 per cent. This is expected to result in a 16 per cent interim fall to £380m pre-tax, according to BT Alex Brown.

WEDNESDAY

● YPF, the Argentinian oil company will report third-quarter net profit of $150m–$151m on Wednesday, down from $225m a year earlier, mainly because of the fall in world oil prices, analysts said. Earnings per share are forecast at 43 cents, down from 65 cents.

Frank McGann of Merrill Lynch, who forecasts net profit of $150m, or 43 cents per share, said: "The third quarter was another soft quarter for YPF. Year-on-year, the most important factor in the earnings is the 27 per cent drop in oil prices." *AFX, Buenos Aires*

● KLM Royal Dutch Airlines is expected to report a net profit before exceptional items of Fl 300m–Fl 369m in the second quarter, down from Fl 463m ($249m) a year earlier, analysts say. Earnings per share are expected to be Fl 4.70–Fl 6.05 (Fl 6.24). Analysts cited Fl 50m of revenue lost from the strike at Northwest Airlines and a strong dollar as negatives for KLM. *AFX, Amsterdam.*

● Scottish Power has said it wants to make an acquisition in the US and investors will be keen to hear of any plans on that front when the company reports its interim results. There may be some progress on the move to win customers for gas, while any losses in customer numbers for the supply of electricity will be keenly examined. Cost control is likely to remain an issue. Analysts expect a 2 per cent advance to £245m pre-tax.

THURSDAY

● Weak Asian refining margins have combined with falling chemicals volumes and oil prices to cast a cloud over Shell third-quarter figures. A decline of about 25 per cent is expected, to £1.25bn on a replacement cost basis.

● The combination of higher claims due to bad weather and lower investment income is expected to produce third-quarter pre-tax operating profits Royal & Sun Alliance, the insurer, in a range of £385m to £425m in the nine months to September, with most analysts tending towards the lower end. This would mean a fall of about 44 per cent.

FRIDAY

● Bad weather in Europe is thought to have taken its toll on ice cream sales, and this will have affected the third-quarter results from Unilever. Analysts forecasts are in a range of £860m-£895m.

Sir Richard Greenbury of Marks and Spencer

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1998 High	1998 Low	Stock	Close price p	+/-	Net div.	Div cov.	Grs yld	P/E net
*	F.P.	11,217	859	476	Allied Zurich	714	+29	017.7c	3.3	1.5	0.5
–	F.P.	-	53½	48	Anglian Water B	50		-	-	-	-
§	F.P.	5.63	108	107	Collective Assets Tst	108		-	-	-	34.3
–	F.P.	40.5	102	98	Exeter Enhanced	101¼	+½	F9.0	-	11.1	-
–	F.P.	149.9	105	78½	Fairview	82	+1	14.0	3.5	6.1	5.9
–	F.P.	436.3	322½	229½	First Active	319½	-2½	-	-	-	19.2
–	F.P.	37.3	12½	11	Marley B	11		-	-	-	-
§	F.P.	7.16	20½	8	Murray Extra Fin Cap	20½	+1½	-	-	-	-
§100	F.P.	31.0	114½	89	Do Inc	113½	+½	b7.95	-	9.5	-
§	F.P.	24.1	103¼	98¾	Do Zero Div Pri	101	+¼	-	-	-	-
§	F.P.	5.17	5½	5	†Natural Bldg Mts	5¼		-	-	-	-
§	F.P.	2.10	105	105	†Do Cnv Prf	105		-	-	-	-
–	F.P.	-	62½	54½	†Old Monk Company	58		-	-	-	14.1
–	F.P.	7.48	93	90½	Piccadilly Grwth	90½		1.6	0.8	2.2	71.0
§65	F.P.	4.66	66½	62½	†Private & Comm Fin	65½		R0.6	9.3	1.1	11.8
100	F.P.	-	103	97½	REXAM B	101½		-	-	-	-
§	F.P.	-	177	170	Smaller Cos Eq Ltd	177	+2	-	-	-	-
–	F.P.	216.6	143	103	Terranova Foods	118½		L4.0	2.3	4.2	13.1
–	F.P.	-	12	5	Xenova Wts	7½		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	Oct 30	% chg since 31/12/97	Mkt Cap $bn	% of Gold Mines	Gross div yld %	Total return	52 week High	52 week Low
Gold Mines Index (27)	1113.11	5.2	34.61	100.00	1.71	1114.88	1351.57	701.58
■ Regional Indices								
Africa (9)	1242.72	12.5	10.15	29.32	3.33	1246.04	1498.04	765.63
Australasia (7)	1273.32	10.1	3.34	9.66	3.22	1276.78	1600.53	815.93
Americas (11)	1043.13	0.6	21.12	61.02	0.70	1048.74	1317.41	647.69

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STOCK INDICES

	Oct 30	Oct 29	Oct 28	Oct 27	Oct 26	1998 High	1998 Low	Since comp. High	Since comp. Low
FTSE 100	5438.4	5368.5	5293.9	5331.2	5231.5	6179.0	4648.7	6179.0	986.9
FTSE 250	4811.4	4732.9	4717.4	4715.7	4663.8	5966.6	4251.2	5966.6	1379.4
FTSE 250 ex IT	4847.9	4769.9	4755.7	4749.7	4702.5	6030.0	4295.8	6030.0	1378.3
FTSE 350	2592.4	2558.6	2528.6	2541.2	2497.0	2967.6	2233.5	3548.4	664.5
FTSE SmallCap	2012.34	1980.86	1970.41	1969.98	1953.64	2868.09	1834.49	2868.09	1363.79
FTSE SmallCap ex IT	1973.99	1943.31	1932.84	1930.23	1918.53	5554.10	1815.83	5554.10	1363.79
FTSE All-Share	2504.86	2487.29	2441.94	2455.24	2413.62	2886.17	2185.07	2885.17	61.92
FTSE Fledgling	1112.34	1104.51	1102.83	1105.28	1097.22	1517.11	1048.17	1517.11	31.14
FTSE Eurotop 100	2440.67	2399.74	2390.65	2429.27	2374.61	3088.91	2049.91	3088.91	2044.47
FTSE Eurotop 300	1062.73	1043.94	1038.61	1055.65	1033.57	1327.88	893.55	1327.88	874.06
FT 30	3320.6	3270.5	3228.1	3248.1	3149.8	3884.8	2806.8	3884.0	49.4
FT Govt Securities	110.53	110.77	110.18	110.65	109.97	118.46	93.31	141.84	49.18
FT Fixed Interest	148.56	148.67	148.34	148.91	147.83	154.88	115.32	154.88	50.53
FTSE Gold Mines	1113.11	1106.25	1101.69	1096.44	1038.15	1351.57	701.58	2874.61	701.58

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
World Bank	750	Nov 2003	4.75	99.803R	4.795	+58(5¼Aug03)	ABN Amro/Warburg DR
EBRD(a)	100	Oct 2003	4.625	99.153R	4.820	+52(5¼Aug03)	Merrill/Tokyo-Mitsubishi
Assocs Corp of N America	2.3bn	Nov 2008	5½(b)	99.981R	5.759	+142(5¼Aug08)	B Stearns/Warburg DR
Assocs Corp of N America	1.5bn	Nov 2008	6¼(b)	99.735R	6.286	+168(5⅝May08)	B Stearns/Warburg DR
Assocs Corp of N America§	1bn	Nov 2018	6.95‡	99.412R	7.005	+180(6⅛Nov27)	B Stearns/Warburg DR
Canada	2.5bn	Nov 2008	5.25‡	99.977R	5.253	+67(5⅝May08)	Goldman/RBC/Warburg
Finance for Danish Industry‡	300	Jan 2004	(b,c)	99.944R	-	-	ABN Amro/Lehman
European Inv'ment Bank(d)	250	Oct 2003	4.75	99.729R	4.813	+50(5¼Aug03)	M Stanley/Warburg
Fannie Mae☆	3bn	Nov 2003	4¾(b)	99.989R	4.752	+59(5¼Aug03)	CSFB/JPM/MSDW
Abbey Natl Trsy Services	100	Nov 1999	zero	95.584	4.620	-	Nomura International
Windermere Corp II(e)‡	95	Oct 1999	(e1,f)	100.00	-	-	Chase Manhattan Intl
New Zealand Dairy Board‡	55	Nov 2000	(f)	100.00	-	-	Lehman Brothers Intl
D-MARKS							
National Bank of Hungary(d)‡	250	Feb 2003	(d1)	99.62R	-	-	DG Bank
Republic of Argentina(g)	500	Nov 2008	(e1)	100.008	11.33	+760(6Nov08)	Morgan Stanley DW
Republic of Venezuela	180.1	2008	(w)	undisc'	-	-	ABN Amro
STERLING							
KfW International Finance(l)	150	Jan 2021	5.55(k)	99.287R	5.610	+95(8%Jan21)	Merrill/JP Morgan
European Inv'ment Bank	250	Dec 2008	5.50(l)	98.782	5.65	+53(5¾Dec09)	Salomon Smith Barney
Fannie Mae(l)	200	Jan 2002	6.875	103.82	5.655	+57(7%Jan02)	Warburg Dillon Read
Finance for Danish Ind‡	150	Jan 2001	(h,i)	99.884	-	-	Barclays/Commerzbank
Inter-American Dev Bank	100	Dec 2009	5.75(l)	99.775	5.78	-	Dresdner KB
BNG(l)	60	Mar 2005	6.375	102.65	5.859	-	Merrill Lynch Intl
World Bank(m)	50	Nov 2004	6.25(l)	102.82	5.67	-	HSBC Markets
Federal Home Loan Banks(n)	100	Jan 2003	5⅝(l)	99.088	5.83	+62(8%Jun03)	Morgan Stanley DW
Thames Water Utilities Fin(o)	330	Nov 2028	6.75	99.434R	6.795	+180(6%-Dec28)	JP Morgan Securities
International Finance Corp	200	Dec 2008	5⅝(l)	99.427	5.695	+83(5¾Dec08)	Barclays Capital
FRENCH FRANCS							
Ile de France	800	Nov 2008	4.50	99.479R	4.566	[illegible]	CDC-Marchés/CCF
ITALIAN LIRE							
Intl Finance Corp(p)‡	100bn	Nov 2018	(e1)	99.75R	-	-	BNL/CSFB
European Inv'ment Bank‡	180bn	Nov 2018	(l)	99.79R	-	-	[illegible]
Inter-American Dev Bank‡	100bn	Nov 2013	(t)	99.59R	-	-	BCI/Salomon SB
SWISS FRANCS							
L-Bank	200	Dec 2005	2.75	102.25	-	-	ABN Amro Bank(Zurich)
GUILDERS							
NIB	500	Nov 2010	4⅝(v)	99.60R	4.850	+2(4¼(l))	DeNIB/Rabobank
PESETAS							
Hipocat 2, Class A(u)‡	45,775bn	Aug 2023	(d1,s)	100.00	-	-	JP Morgan Securities
EUROS(k)							
Republic of Italy(q)	150	Oct 2005	4.00	99.23	4.129	-	Warburg Dillon Read
BNG	500	Jan 2004	3.75	99.49R	3.86	+12(4½%Jul03)	CSFB
AUSTRALIAN DOLLARS							
GE Capital Australia	100	Nov 2003	5.00	101.775	4.595	-	RBC DS Global Markets
CANADIAN DOLLARS							
L-Bank	100	Nov 2003	5.00	99.88R	5.046	+30(5¼Sep03)	RBC DS Global Markets
GREEK DRACHMA							
L-Bank	10bn	Nov 2001	8.00	99.9925R	8.003	-	TD Securities
SOUTH AFRICAN RAND							
European Investment Bank	200	Nov 2000	16.00	100.342	-	-	RBC DS Global Markets

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ◊With equity warrants. ☆Unlisted. §Semi-annual coupon and yield. R: fixed re-offer price. a) $500m launched on 13/10/98 was increased to $600m. b) 3-mth Libor +18¼bp. c) Fungible with $500m. Plus 12 days accrued. d) Fungible with DM750m. No accrued. d1) 3-mth Libor +37½bp. e) Payments in Ecu prior to Emu. Spread relates to French govt Ecu bonds. f) Fungible with $460m. Plus 34 days accrued. g) Fungible with £500m. Plus 4 days accrued. h) Fungible with £1.7bn. Plus 150 days accrued. i) Over interpolated yield. j) 3-mth Libor +6¼bp. k) Fungible with £200m. Plus 214 days accrued. l) Long 1st coupon. m) Fungible with £200m. Plus 289 days accrued. n) Callable from 20/11/03 at par. n1) 14% in yr 1, 8% in yr 2, 5% in yr 3, 4½% in yr 4, 4% in yr 5, then 5% fixed or 8% – 12-mth Libor at issuers option. o) Secured on total return swap with Chase Manhattan Bank. Callable on coupon dates. o1) 3-mth Libor +20bp. q) Puttable on 19/11/03 at par. q1) 14% in yrs 1-2, fixed 9%. r) Fungible with £200m. Plus 21 days accrued. s) Short 1st coupon. t) 10% in yr 1, 5% in yrs 2-3, 4½% in yrs 4-5, then 6-mth Libor +25bp if Libor < 6¼% otherwise 2%. u) Secured on Spanish mortgages originated by Caixa Catalunya. 10% cleanup call. Av life: 3.9 yrs. u1) 3-mth Libor +20bp. u2) Class B: Plt 1.725bp; 6.3 yrs, 6-mth Libor +55bp. v) 3-mth Libor +20bp. w) 10% for 1st 2 yrs, then 7½%. x) Spens clause. Event risk language. y) 12% in yr 1, 8% in yrs 2-5, 4½% in yr 5, then 8% - 12-mth Libor. z) Joint-books: Banca di Novara, Banca Profilo, Deutsche. Note: Yields are calculated on ISMA basis.

Banco Mayo eurobond holders voice concern

By Ken Warn in Buenos Aires

The holders of $100m in eurobonds sold this year by Argentina's failed Banco Mayo have expressed concern over their treatment after the transfer of much of the bank's assets to Citibank last week.

The Citibank takeover ensures that local depositors will get their money back, but does not guarantee Banco Mayo's eurobonds, which were last week declared in default. The default could raise financing costs for other Argentine corporate borrowers and even for the government unless the issue is resolved, according to local observers.

"This could hurt confidence at a time when Argentina needs to secure a lot of financing," said Veronica Berger Collins, a director at Marcuard Asset Management in Buenos Aires. "The holders of these bonds are mainly European investors that buy Eurobonds from a range of Latin American banks. It's come at the worst possible time."

The Central Bank intervened in Banco Mayo last month after a run of more than $200m on deposits amid press reports questioning the solidity of the bank's loan portfolio. Under the terms of last week's deal Citibank will take over Mayo's remaining $728m in deposits and 54 of its 78 branches. The deal is expected to safeguard the jobs of many of Banco Mayo's employees.

In April this year Deutsche Bank managed the sale of $50m in Banco Mayo medium-term eurobonds, while Paribas organised a similar deal in June. Both banks are believed to have been lobbying hard for the claims of the bondholders to be recognised.

The Central Bank, still struggling to tie up aspects of the Mayo transfer, said that under the terms of Argentina's banking law it is forbidden from taking on the Eurobond debt. The law also makes corporate bonds and deposits placed abroad deeply subordinate to other liabilities.

Brazil and Mexico, in contrast, have backed the claims of international bondholders in similar situations, according to one European banking official. "There is a lot of concern among the bondholders," he said.

"I hope it's resolved, but it could end up costing Argentina more than $100m in terms of higher premiums," said Mrs Berger Collins.

Banco Mayo, a co-operative bank, was an important financial force in Argentina's Jewish community, and backed a wide range of educational and cultural activities. Earlier this year it took over the Banco Patricios, which was itself suspended by the Central Bank in March, also after a run on deposits.

Loblaw to buy Provigo in C$1.62bn agreed deal

By Edward Alden in Toronto

Loblaw, Canada's largest grocery retailer, has agreed a C$1.62bn ($1.05bn) deal to acquire Provigo, the largest food retailer in Quebec.

The deal, announced on Friday, would accelerate consolidation in the Canadian grocery industry, mirroring developments in the US, where several large supermarket acquisitions and mergers have recently been completed. It would also give Loblaw, which had sales of C$11bn last year, about 35 per cent of the total Canadian retail market.

The proposal comes just a week after Empire, which owns Sobeys, the largest grocery retailer in Atlantic Canada, announced a bid for the Oshawa Group in a deal expected to be worth about C$1.4bn. That deal would turn Empire into a leading competitor of Loblaw in Ontario, where Oshawa has struggled to turn a profit.

If both proposals are accepted, the Canadian grocery retailing market would be dominated by three big chains, Loblaw, Empire and US-owned Safeway, which is strong in western Canada.

Provigo controls about 35 per cent of the Quebec market with C$6bn in annual sales but is facing greater competition in the province and has been struggling to make its Ontario retail outlets profitable.

Loblaw recently began establishing large new retail outlets in Montreal, Quebec's largest city, in an attempt to gain a foothold in the province. Both Oshawa and Empire have been expanding in Quebec as well.

"Quebec's food distribution industry is becoming increasingly crowded, especially with the arrival of new players," said Pierre Michaud, Provigo chairman. "A merging of forces is inevitable."

Provigo shareholders will be offered C$15 per common share made up of a quarter of a Loblaw share and C$7.25 cash. Provigo shares closed Friday at C$13.65, up C$3.80 after the bid was announced. Loblaw shares closed at C$28.80, down C$3.20.

CROSS-BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Marsh & McLennan (US)	Sedgwick (UK)	Insurance	$2.1bn	Europe approves
DuPont (US)	Herberts (Germany)	Paint	$1.9bn	Rapid recovery
Global TeleSystems (US)	NetSource (Norway)	Telecoms	$155m	Paper + cash bid
McDermid (US)	W Canning (UK)	Chemicals	$149m	More consolidation
Axa (France)	Barr Rosenberg (US)	Financial srvcs	$125m	Quant foray
Lafarge (France)	Jordan Cement (Jordan)	Cement	$100m	Privatisation stake
Danone (France)	Delicja (Poland)	Food	$80m	Pepsi disposal
GKN (UK)	Dow-UT Composite (US)	Engineering	$63m	Aerospace move
Yorkshire Water (UK)	Biochem (N'lands)	Laboratory srvc	$26m	Takes out rival
Kingfisher (UK)	Electric City (S'pore)	Retailing	n/a	Long-term plans

Hidden risks in credit derivatives

Concern is mounting over a product not fully understood, says **Jeremy Grant**

Concern is mounting over the explosive growth of credit derivatives, with industry experts warning that the market has grown so fast that some banks may be exposed to significant positions in a product whose risks they still do not fully understand.

Credit derivatives allow investors worried that a borrower may default or a bond may not be repaid to offload the risk to a third party.

Volume has taken off this year as financial institutions have sought to protect themselves against corporate and sovereign defaults during, and in the wake of, crises in Asia and Russia.

The British Bankers' Association says the global market for credit derivatives is set to grow to $740bn in 2000 from $180bn last year.

Bankers have also hailed them as a revolution in credit risk management because they allow banks and corporates to transfer credit risk without jeopardising client relationships.

They also allow investors to gain exposure to investments – such as Russian treasury bills (GKOs) – that may be off-limits for legal and regulatory reasons.

However, experts say there are dangerous hidden risks and that the market has overshot the regulatory environment.

"People are getting taken in by the hype and are not asking what could go wrong. Senior management have to ensure that what could go wrong is properly addressed and is properly monitored," said Phil Rivett, capital markets partner at PricewaterhouseCoopers.

Two products dominate the market: credit default swaps (which offer insurance against defaults) and total return swaps (which allow an institution to acquire the cashflows of a bond or other investment without holding the instrument physically). Banks are by far the biggest buyers of such products, but insurance companies and corporations are featuring increasingly in such transactions.

For example, a bank that has lent money to an Asian vehicle manufacturer but is worried that it may default can buy a credit default swap from a bank. In the event of default, the bank will pay a predetermined sum to the investor, who pays the bank a premium calculated on the perceived likelihood of default by the car manufacturer.

In order to assess that probability, the bank will use an asset related to the car manufacturer – typically a bond issued by it – as a benchmark. This is known as a reference credit.

However, analysts say there is insufficient liquidity in the credit default swap market to be able to extract enough information about default probability for pricing purposes.

"People don't realise that there isn't a market value for these things. There's no model for pricing them because the information about default probability isn't there," said Jessica James, of the strategic risk management group at First National Bank of Chicago.

There are also concerns about how reference credits are priced when a default or other credit event has occurred. This is often done by taking a poll of two or three dealers on a trading desk.

"Credit derivatives are an essential part of everyone's risk management tool kit. But who knows the price of a defaulted asset? Many dealers will tell you they have no idea. So it becomes very difficult to collect prices," said Tim Frost, head of derivatives trading at J.P. Morgan.

Another issue is the risk associated with counterparties, or the entities that are selling credit protection. Buyers of protection cannot always be sure they are also risk-free. There are particular concerns over the exposure of some counterparties to hedge funds, which borrow heavily to fund often risky positions.

"The whole use of derivatives as hedging instruments has come into doubt because many of the counterparties have become dubious. There is a risk of a chain reaction right through the system. Where does the buck stop?" said one senior US investment banker.

Finally, analysts are increasingly worried about documentation risk. They say that the terms used in credit derivatives contracts are wide open to conflicting interpretation, particularly when it comes to determining if a "credit event" has occurred. (A credit event has to occur in order to trigger default payment.)

Credit derivatives

Market size ($bn)	1997	1998	2000*
Global	180	350	740
London	70	170	380
London's % of the global market	39	49	51

Market share (%)	1997	2000*
Credit default products	52	38
Total return swaps	16	13
Credit spread products	13	21

Source: British Bankers' Association * estimated

For example, credit default contracts on Russian risk were written in a variety of different ways by the parties involved. When Russia defaulted, many institutions found protection difficult to enforce because counterparties refused to accept a credit event had taken place.

The International Swaps and Derivatives Association has issued standardised documentation for credit derivatives but analysts say terms can fail to take adequate account of foreign jurisdictions where certain concepts, such as bankruptcy, may not be recognised.

Robert Pickel, ISDA general counsel, said it was working on fresh guidelines that should be ready early next year.

Prices help Japan's chemical groups

By Paul Abrahams in Tokyo

Depressed feedstock prices helped prevent a significant deterioration in operating profits at Japan's big chemicals manufacturers during the first half.

Mitsubishi Chemical, the country's largest manufacturer, lifted parent company net and operating profits, while Sumitomo Chemical achieved marginally lower operating results but suffered a big drop in net profit due to one-off factors. Both import raw materials priced in dollars.

For the full year, Mitsubishi Chemical predicted parent sales would fall 10 per cent to Y900bn ($7.7bn), but operating profits would rise 21 per cent to Y34bn, and net profits would more than double from Y3.03bn to Y8bn. At a consolidated level, however, net profits would fall from Y5.6bn to zero.

For the six months to September 30, Mitsubishi Chemical's parent operating profits jumped 29 per cent to Y16.34bn on sales down 14 per cent at Y456bn. Net profits rose 8 per cent to Y6.03bn.

Sumitomo Chemical predicted full-year parent operating profits would fall 9.6 per cent to Y36bn, on turnover down 8.7 per cent at Y580bn. Net profits would also decline, down 37 per cent at just Y8.5bn.

The company's non-consolidated first-half operating profits fell 4.6 per cent to Y16.6bn on sales down 10.5 per cent at Y285bn. Net profits fell 34 per cent to Y4.3bn.

The company said the falling cost of raw materials had almost compensated for its lower end-product prices. At the operating level, an increase in research and development costs had been offset by cost-cutting.

At a net level, Sumitomo Chemical suffered a securities valuation loss of Y3.4bn, and an exceptional loss of Y3.2bn to cover lower than expected returns by the company's pension plan.

The discount rate, which was lowered in 1997 from 5.5 per cent to 4 per cent last year, was cut again to 2.8 per cent this year. The company passed its interim dividend, but said it was likely to propose a full-year dividend of Y5,000 per 1,000 shares.

The only division that reported higher sales was agrochemicals, whose turnover was up 8.9 per cent.

Motorway services group sold

By Peter Norman in Bonn

The German federal government yesterday announced the sale of its Tank und Rast chain of motorway restaurants and petrol stations to a consortium of three investors.

The purchasing group, comprising Allianz Capital Partners, Apax Fondsgesellschaften and LSG Lufthansa Service Holding, is understood to have paid about DM1.2bn ($725m) for Tank und Rast as well as agree to take over liabilities of about DM600m. The consortium, advised by J.P. Morgan, plans an eventual flotation of the business.

Tank und Rast is Germany's biggest motorway service company and owns 295 petrol stations, 329 restaurants, 54 motels and 40 kiosks franchised to smaller companies. The news of the privatisation raised concern among franchisees, despite assurances they would be represented on Tank und Rast's supervisory boards.

Further sale of OTE to raise $1.1bn

By Kerin Hope in Athens

The sale of a further 10 per cent of OTE, Greece's partly privatised telecoms operator, is set to raise $1.1bn for the government after being subscribed 1.8 times.

The global offering of 50.4m shares was priced yesterday at Dr6,100 per share, at the lower end of the Dr5,850-Dr6,600 price range set when book-building started last week. The price of American depositary shares was set at $11.

OTE shares will start trading in New York today. About 40 per cent of the offering has been placed in the US and Canada, with the rest split between domestic investors and European and Asian institutions.

Demand was almost evenly divided between domestic and international investors. Retail investors in the US, mostly from the large Greek-American community, which was being targeted by an Athens-based company for the first time, showed the keenest appetite.

George Chryssoulouris, OTE chief executive, said most of the international issue had been placed with institutions regarded as long-term holders.

Analysts said demand was driven by OTE's above-average profits prospects, based on faster digitisation of the fixed-wire network and rapid growth in subscribers to CosmOTE, its mobile telephony subsidiary launched in March. The sale reduces the state's shareholding in OTE to 55 per cent.

LEGAL NOTICE

No. 005904 of 1998

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION
COMPANIES COURT

IN THE MATTER OF BILLITON PLC
and
IN THE MATTER OF THE COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that a Petition was on 19 October 1998 presented to Her Majesty's High Court of Justice for the confirmation of the reduction of the share premium account of the above-named Company by US$1,250 million.

AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before the Companies Court Registrar at the Royal Courts of Justice, Strand, London WC2A 2LL on Wednesday the eleventh day of November 1998.

ANY Creditor or Shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of share premium account should appear at the time of hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any such person requiring the same by the undermentioned Solicitors on payment of the regulated charge for the same.

Dated the 29th day of October 1998.

LINKLATERS & PAINES (CXB/DTL)
One Silk Street
London EC2Y 8HQ
Solicitors for the above-named Company

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, October 30, 1998. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)			£ STG	US $	D-MARK	YEN (X 100)			£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7954.58	4750.00	2868.01	4075.20	Gibraltar	(Gib £)	1	0.5971	0.3605	0.5124	Pakistan	(Pak. Rupee)	85.2314	50.8950	30.7308	43.6754
Albania	(Lek)	237.392	141.757	85.5875	121.643	Greece	(Drachma)	471.456	281.525	169.983	241.590	Panama	(Balboa)	1.6747	1	0.6038	0.8581
Algeria	(Dinar)	97.1548	58.0150	35.0290	49.7855	Greenland	(Danish Krone)	10.5436	6.2961	3.8015	5.4030	Papua New Guinea	(Kina)	3.6328	2.1693	1.3098	1.8615
Andorra	(French Fr)	9.3061	5.5570	3.3553	4.7687	Grenada	(E Carib $)	4.5216	2.7000	1.6302	2.3170	Paraguay	(Guarani)	4730.88	2825.00	1705.71	2424.27
	(Sp Peseta)	236.327	141.120	85.2071	121.102	Guadeloupe	(French Fr)	9.3061	5.5570	3.3553	4.7687	Peru	(New Sol)	5.1379	3.0680	1.8524	2.6328
Angola	(Readj Kwanza)	430699.2	257128.0	155257.8	220653.9	Guam	(US $)	1.6747	1	0.6038	0.8581	Philippines	(Peso)	67.5722	40.3500	24.3630	34.6263
Antigua	(E Carib $)	4.5216	2.7000	1.6302	2.3170	Guatemala	(Quetzal)	11.0234	6.5825	3.9745	5.6488	Pitcairn Is	(£ Sterling)	1	0.5971	0.3605	0.5124
Argentina	(Peso)	1.6742	0.9997	0.6036	0.8579	Guinea	(Fr)	2081.59	1243.00	750.513	1066.66		(NZ $)	3.1633	1.8889	1.1405	1.6210
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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EQUITIES

Investors eye corporate results

EUROPEAN OVERVIEW

By Vincent Boland

Investors in European stocks will continue to keep an eye on corporate results this week as the reporting season peaks. So far, profits have been broadly in line with market estimates, with the exception of some Russian-inspired horrors in the financial sector.

Astra, the drugs group, and KLM, the airline, are among the leading companies due to report in the next few days. Otherwise, the corporate horizon is relatively quiet, although vague merger and acquisition talk will continue to keep some sectors on their toes.

On the economic front, the Bank of England is due to announce on Thursday whether it has decided to cut interest rates, and by how much. And there will be much comment on proposals by the Group of Seven industrial countries to stem the tide of global volatility in capital markets.

The markets ended on Friday in relatively robust fashion, rising across the board to round off a good week's trading, although some sectors fared better than others. The FTSE Eurotop 300 index closed at 1062.73, up 18.8 points or 1.8 per cent, while the Ebloc 100 index closed at 877.42, up 17.81 points or 2.07 per cent.

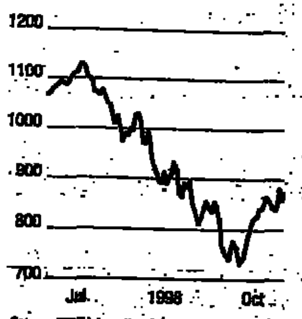
Over the week, the Eurotop 300 index rose 39.43 points, reflecting the modest return of stability to the markets. Among individual stocks, star performers included Alcatel, which rose Ecu 13.43 to Ecu 93.83 over the week, and UBS, which rose Ecu 19.61 to Ecu 231.02.

Among sectors, chemicals and financials stood out, although HypoVereinsbank sent shudders through German banks during the week after announcing an additional DM3.5bn of provisions to cover risks in its domestic property loan portfolio.

Its shares fell Ecu 2 over the week to Ecu 66.64, while those of Deutsche Bank were up Ecu 2.1, despite revealing a sharp profits fall on Thursday for the quarter to September. The bank blamed Russian and Asian exposure for the setback, an excuse with which investors are becoming familiar.

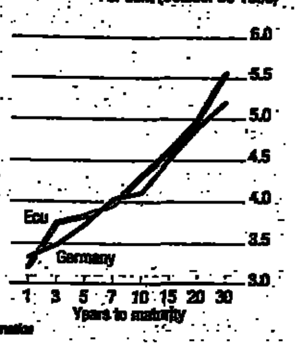
Although the financial sector has been the worst affected by those factors, industrials have not entirely escaped. Investors will be hoping the bad news is now priced in.

FTSE Ebloc 100
Index



Source: FTSE International, Interactive Data/FT Information

Bond yield curve
Per cent (October 30 1998)



THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

[illegible]

THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

[illegible]

FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

[illegible]

EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

[illegible]

OTHER INDICES

[illegible]

FTSE Actuaries Share Indices — European series

October 30 National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Ecu)
FTSE Eurotop300	1062.73	+1.80	+18.80	2.57	23.81	1092.82
FTSE Eurotop100	2440.67	+1.71	+40.92	2.60	36.65	873.69
FTSE Ebloc100	877.42	+2.07	+17.81	2.28	14.23	889.84
FTSE Eurotop 300 Regions						
Eurobloc	1103.77	+2.01	+21.79	2.29	20.70	1126.44
UK	998.15	+1.52	+14.97	3.00	31.98	1045.65
Europe Ex-Eurobloc	1031.28	+1.58	+16.02	2.87	25.88	1065.76
Europe Ex-UK	1099.61	+1.94	+20.96	2.35	19.25	1119.65
FTSE Eurotop Industry Sectors						
RESOURCES	838.54	+0.39	+3.27	3.36	27.67	875.27
Extractive Industries	767.81	+2.91	+22.30	4.34	14.54	804.45
Oil, Integrated	808.57	+0.28	+2.22	3.32	20.18	826.58
GENERAL INDUSTRIES	968.47	+2.11	+20.03	2.28	20.14	987.81
Construction	908.88	+1.04	+9.35	3.07	11.06	919.23
Building Matls & Merchs	861.97	+0.93	+7.97	2.59	8.96	869.42
Chemicals	839.09	+2.26	+18.53	2.87	17.45	853.90
Diversified Industrials	886.96	+1.39	+12.18	2.67	17.48	902.18
Electronic & Elect Equip	817.82	+2.38	+18.98	2.03	4.89	821.77
Engineering	819.59	+1.98	+15.91	3.09	11.68	829.56
Paper, Pckg & Printing	744.14	+2.47	+17.91	3.13	1.21	745.06
CONSUMER GOODS	1110.90	+1.12	+12.32	1.62	16.91	1139.80
Automobiles	789.01	+2.81	+21.56	3.30	10.25	796.33
Alcoholic Beverages	882.49	+2.69	+23.35	2.96	13.21	907.10
Food Producers	919.85	+0.88	+8.31	1.84	9.79	928.66
Household Goods & Texts	982.50	+2.37	+22.26	1.98	7.88	989.72
Healthcare	939.94	+3.41	+30.85	1.24	13.51	949.94
Pharmaceuticals	977.93	+0.75	+7.27	1.31	5.27	983.24
Tobacco	1242.65	+3.15	+38.00	2.34	7.56	1251.29
SERVICES	1076.31	+1.73	+18.32	2.16	21.95	1105.29
Distribution	813.05	+1.67	+13.32	2.67	11.37	822.18
Leisure & Hotels	715.91	+5.06	+34.47	3.43	12.27	725.28
Media	946.61	+1.13	+10.80	2.32	10.68	958.72
Retailers, Food	977.56	+1.84	+17.69	2.08	12.84	990.40
Retailers, General	909.51	+1.50	+13.42	3.43	17.45	925.22
Telecommunications	983.90	+1.89	+18.26	1.96	13.02	995.86
Breweries, Pubs & Rests	727.52	+0.99	+7.10	3.63	14.20	738.58
Support Services	904.76	+2.08	+18.44	1.62	9.87	914.35
Transport	932.14	-0.13	-1.17	2.59	16.18	947.21
Information Technology	826.96	+2.23	+18.02	0.44	2.33	828.93
UTILITIES	1389.10	+0.68	+9.27	3.18	55.82	1445.69
Electricity	1020.55	+0.75	+7.56	3.38	28.23	1047.80
Gas Distribution	1136.88	-0.13	-1.42	1.82	98.32	1261.77
Water	1001.80	+1.91	+18.74	5.02	38.72	1039.86
FINANCIALS	1113.26	+2.64	+28.60	2.94	27.14	1142.86
Banks,Retail	769.65	+2.48	+18.65	3.82	12.84	779.85
Insurance	871.93	+3.00	+25.41	1.59	11.61	882.27
Life Insurance	975.23	+2.37	+22.56	1.95	12.98	987.89
Other Financial	824.24	+4.03	+31.91	2.45	15.85	838.00
Investment Companies	872.47	+3.27	+27.66	1.56	20.66	888.78
Property	684.97	-1.30	-9.01	3.55	16.01	897.56

FTSE EUROTOP 300

[illegible]

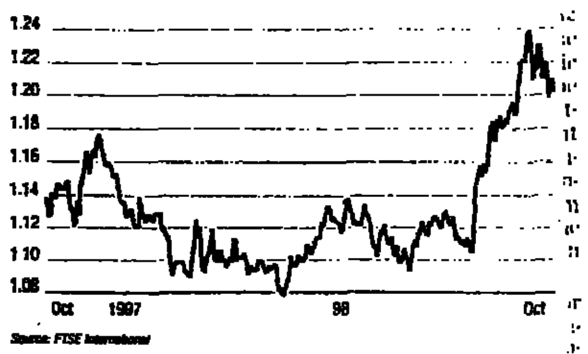
CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

Oct 30	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Austria	ATS	14.048267	-0.0056	-0.04	-0.0049	-0.03
Belgium	BEF	41.183333	-0.0256	-0.06	-0.0365	-0.09
Czech Republic	CZK	34.987254	+0.0788	+0.23	-0.2280	-0.64
Denmark	DKK	7.590585	-0.0037	-0.05	-0.0011	-0.01
Finland	FIM	6.074421	-0.0014	-0.02	+0.0008	+0.01
France	FRF	6.699525	+0.0026	+0.04	+0.0012	+0.02
Germany	DEM	1.996717	-0.0008	-0.04	-0.0007	-0.04
Greece	GRD	339.406846	-1.7189	-0.50	-1.6367	-0.48
Hungary	HUF	261.508932	-0.5059	-0.19	-1.8776	-0.71
Ireland	IEP	0.802448	+0.0007	+0.08	+0.0012	+0.15
Italy	ITL	1976.075981	-1.0789	-0.05	-1.0564	-0.05
Luxembourg	LUF	41.183333	-0.0256	-0.06	-0.0365	-0.09
Netherlands	NLG	2.251701	-0.0009	-0.04	-0.0010	-0.04
Norway	NOK	8.887932	-0.0479	-0.54	-0.0486	-0.54
Poland	PLN	4.153889	-0.0215	-0.51	-0.0515	-1.22
Portugal	PTE	204.668869	-0.0871	-0.04	-0.0501	-0.02
Romania	ROL	11603.910461	+3.6752	+0.03	-52.1699	-0.45
Russia	RUB	20.133538	+0.0555	+0.28	-0.5087	-2.46
Slovakia	SKK	42.280075	-0.1443	-0.34	-1.0300	-2.38
Spain	ESP	170.134425	+0.4212	+0.25	+0.4646	+0.27
Sweden	SEK	9.424304	+0.0195	+0.21	+0.0958	+1.02
Switzerland	CHF	1.632625	+0.0088	+0.54	+0.0029	+0.18
United Kingdom	GBP	0.719864	-0.0012	-0.17	-0.0018	-0.24
ECU	ECU	1.014634	-0.0008	-0.08	-0.0010	-0.10
Americas						
Brazil	BRL	1.438162	-0.0041	-0.28	-0.0162	-1.11
Canada	CAD	1.865065	-0.0097	-0.52	-0.0190	-1.01
Mexico	MXN	12.204300	-0.1844	-1.49	-0.0553	-0.45
United States	USD	1.205601	-0.0046	-0.38	-0.0158	-1.30
Pacific/Middle East/Africa						
Australia	AUD	1.937522	-0.0025	-0.13	-0.0308	-1.57
Hong Kong	HKD	9.338586	-0.0384	-0.41	-0.1272	-1.34
Japan	JPY	140.488685	-0.7292	-0.52	-3.8729	-2.68
Singapore	SGD	1.983080	+0.0031	+0.16	-0.0185	-0.93
South Africa	ZAR	6.763422	-0.1501	-2.17	-0.2277	-3.26

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.3364, FRF 0.2217, ITL 0.1823, NLG 0.0577, BEF 0.0388, ESP 0.0848, IEP 0.0116, PTE 0.0155, ATS 0.0325, FIM 0.0187

Synthetic Euro against the dollar
$ per Euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

Bilateral conversion rates against the D-Mark

Oct 30	Fixed rate	Market rate	Diff fxd vmkt%	Week ago %	Forward rate	Forward int rate	Diff int rate v DEM
Austria	7.03552	7.0357	+0.00	+0.00	7.035	3.56	-0.06
Belgium	20.6255	20.6255	+0.00	+0.05	20.6231	3.55	-0.07
France	3.35386	3.3553	+0.04	-0.01	3.355	3.57	-0.05
Finland	3.04001	3.0422	+0.07	+0.32	3.0422	3.62	+0.00
Ireland	0.402676	0.4019	-0.19	-0.39	0.4023	4.21	+0.59
Italy	990.002	989.1619	-0.08	-0.07	990.2445	4.57	+0.95
Luxembourg	20.6255	20.6255	+0.00	+0.05	20.6231	3.55	-0.07
Netherlands	1.12674	1.1277	+0.09	+0.00	1.127	3.25	-0.37
Portugal	102.505	102.5027	+0.00	-0.01	102.5360	3.82	+0.20
Spain	85.0722	85.2071	+0.16	-0.15	85.2739	4.09	+0.47
Germany	1		+0.00	+0.00		3.62	+0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2-3; forward rates are exchange rates to 31.12.98 interpolated from market quotes; forward interest rates are those implied by these forward exchange rates. Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31.12.98. DEM forward interest rate for 31.12.98 is calculated by interpolation between published BBA market fixings.

BONDS

INTEREST RATE SWAPS

Oct 30	D-Mark Bid	D-Mark Ask	Ecu Bid	Ecu Ask	£ Stlg Bid	£ Stlg Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	3.45	3.48	3.55	3.60	6.47	6.50	4.70	4.73	0.39	0.42
2 year	3.46	3.49	3.51	3.55	6.04	6.08	4.60	4.63	0.48	0.51
3 year	3.60	3.63	3.63	3.67	6.00	6.04	4.71	4.74	0.58	0.61
4 year	3.76	3.79	3.79	3.83	6.01	6.05	4.85	4.88	0.69	0.72
5 year	3.93	3.96	3.95	3.99	5.99	6.03	4.96	4.99	0.78	0.81
6 year	4.08	4.11	4.10	4.14	5.97	6.01	5.03	5.06	0.88	0.91
7 year	4.22	4.25	4.24	4.28	5.96	6.00	5.12	5.15	0.98	1.01
8 year	4.35	4.38	4.36	4.40	5.95	5.99	5.20	5.23	1.08	1.11
9 year	4.46	4.49	4.47	4.51	5.94	5.98	5.28	5.31	1.19	1.22
10 year	4.55	4.58	4.56	4.60	5.93	5.97	5.36	5.39	1.30	1.33
12 year	4.71	4.74	4.72	4.76	5.91	5.96	5.48	5.51	1.50	1.54
15 year	4.90	4.93	4.91	4.95	5.89	5.95	5.64	5.67	1.70	1.74
20 year	5.12	5.15	5.13	5.17	5.88	5.93	5.77	5.80	1.89	1.94
25 year	5.25	5.28	5.25	5.29	5.83	5.91	5.82	5.85	1.94	1.99
30 year	5.32	5.35	5.32	5.36	5.81	5.90	5.89	5.92	2.05	2.10

Bid and ask rates as of close of London business. US $ is quoted annual money actual/360 basis against 3 months LIBOR. £ and Yen quoted on a semi-annual actual/365 basis against 6 months LIBOR. D-mark and Ecu quoted on annual bond 30/360 basis against 6 month LIBOR with the exception of the 1 year rate which is quoted against 3 months LIBOR. Source: Intercapital Brokers Ltd.

EUROZONE CORPORATE BONDS

Oct 30	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible Issues								
Belgium (Kingdom of)	03/09	5.750	N/A	110.860	4.32	+0.01	+0.12	+0.00
France (Rep of)	04/08	5.250	AAA	107.000	4.25	+0.02	+0.23	-0.07
Italy (Rep of)	05/08	5.000	AA	103.970	4.48	+0.01	+0.16	+0.16
Portugal (Rep of)	06/08	5.375	AA-	106.240	4.56	+0.02	+0.31	+0.24
Euro issues								
Abbey Natl Treas Srv	02/03	4.875	AA	103.490	3.97	+0.01	+0.07	+0.13
Gen Electric Cap Crp	10/04	5.500	AAA	107.800	3.99	+0.01	+0.09	+0.06
Oest Kontrollbank	04/08	5.250	AAA	105.530	4.52	+0.02	+0.22	+0.20
Cred Local de France	04/08	5.250	AA+	103.580	4.77	+0.06	-0.30	+0.45
Ecu issues								
Bayer Hypo & Wch Bk	07/01	5.000	AA-	103.050	3.77	+0.01	-0.12	+0.07
Cred Foncier France	03/04	8.375	A	119.167	4.48	+0.03	+0.16	+0.55
Euro Inv Bank	04/04	5.250	AAA	106.570	3.89	+0.02	-0.01	-0.05
ABN Amro Hldg. NV	04/07	6.375	AA-	110.010	4.90	+0.04	-0.20	+0.66

Source: Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Emu "in" sovereigns and fungible into one big Euro issue 1/1/99. Euro issues are issued in the new currency. Ecu bonds are issued in Ecus but convert to Euros 1/1/99

GOVERNMENT BOND SPREADS vs ECU

Oct 30	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"INs"						
Austria	-0.10	+0.04	+0.17	-0.01	-0.43	-0.10
Belgium	-0.08	-0.02	+0.09	+0.05	-0.01	-0.22
Finland	-0.10	+0.11	+0.25	+0.20	-0.47	-1.05
France	-0.15	-0.11	-0.08	-0.05	+0.00	-0.32
Germany	-0.17	-0.10	+0.07	-0.20	-0.09	-0.36
Ireland	+0.05	-0.03	+0.07	+0.10	+0.15	+0.29
Italy	+0.12	+0.17	+0.25	+0.23	+0.16	-0.07
Luxembourg	-0.08	-0.02	+0.09	+0.05	-0.01	-0.23
Netherlands	-0.10	-0.03	+0.07	-0.12	+0.20	-0.33
Portugal	-0.08	+0.13	+0.30	+0.17	+0.32	-0.01
Spain	-0.15	+0.00	+0.29	+0.25	+0.21	-0.07
"OUTs"						
Denmark	+0.48	+0.46	+0.48	+0.32	-0.03	+0.45
Greece	+6.83	+5.14	+4.32	+3.58	+2.54	+1.96
Sweden	+0.45	+0.44	+0.50	+0.32	+0.19	-0.39
UK	+1.77	+1.08	+1.07	+0.74	+0.01	-0.73

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CREDIT SPREADS vs ECU

Oct 30	S & P rating	Red date	Coupon	Currency code	Spread	Spread wk ago	Spread mth ago
KFW	AAA	01/09	5.000	DEM	+0.16	+0.18	+0.09
France Telecom	AA+	11/06	6.250	FRF	+0.26	+0.24	+0.15
Halifax	AA	07/07	5.625	DEM	+0.36	+0.35	+0.42
Ing Bank NV	AA-	01/08	5.500	NLG	+0.26	+0.32	+0.15
Bayer Hypo W Bk	AA-	02/02	6.750	ITL	+0.26	+0.22	+0.31
Cred Foncier	A	02/03	7.250	DEM	+0.57	+0.43	+0.45
Thomson-Brandt Int	A-	03/04	6.375	FRF	+0.47	+0.49	+0.41
Generale des Eaux	BBB+	03/04	6.250	FRF	+0.36	+0.38	+0.37
Bank of China	BBB	07/99	7.125	DEM	+2.47	+2.64	+2.15
Nat'l Bk of Hungary	BBB-	06/01	9.000	ATS	+1.24	+1.60	+1.88
Korea Dev Bank	BB+	11/02	5.625	FRF	+5.68	+6.44	+7.90
Argentina	BB	04/08	8.125	XEU	+5.64	+5.65	+7.17

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

CURRENCIES & MONEY

Brazil may test G7

By Alan Beattie

Brazil may provide an early test this week of the credibility of the G7's plans to promote world financial stability, announced last Friday.

Brazil's congress begins later in the week to consider the administration's fiscal stability programme. The emergence of congressional opposition to the plans may renew pressure on the Brazilian currency, the real, and provoke a rapid devaluation.

Attention has focused on Brazil recently as the latest emerging market economy to suffer from capital flight.

The G7 plans aim to pre-empt panic movements by increasing the IMF's contingency facility for loans to countries pursuing sound macro-economic policies but which find themselves under pressure from the financial markets.

Brazil's stability plan, unveiled last week by Pedro Malan, the finance minister, comprises tax rises and spending cuts over the next three years. The scheme aims to save $23.5bn in 1999 alone. It is intended to pave the way for an IMF rescue package of some $30bn, which could be agreed this week subject to progress on the plan's implementation.

But large-scale fiscal retrenchment may face resistance in the Brazilian congress, where some newly elected state governors are expected to flex their muscles against plans to restrict regional spending.

In London, future prospects for sterling could take shape after the monthly meeting of the Bank of England's monetary policy committee. Its decision on interest rates will be announced at noon on Thursday.

The committee has come under increasing public and political pressure to cut interest rates, in view of the weaknesses in the international financial system and evidence of an impending slowdown in the domestic economy.

POUND SPOT FORWARD AGAINST THE POUND

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

WORLD INTEREST RATES

MONEY RATES

Oct 30	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
$ LIBOR BBA London								
Interbank Fixing	-	5¼	5⅛	4⅞	4¾	-	-	-
week ago	-	5⅛	5⅛	4⅞	4⅞	-	-	-
US Dollar CDs	-	4.88	4.80	4.67	4.45	-	-	-
week ago	-	5.07	4.98	4.83	4.61	-	-	-
ECU Linked Ds	-	4⅛	4	3⅞	3½	-	-	-
week ago	-	4⅛	4⅛	3¾	3⅝	-	-	-
SDR Linked Ds	-	3¾	3⅞	3⅜	3⅞	-	-	-
week ago	-	3¾	3⅞	3⅜	3⅞	-	-	-

London Interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

POUND IN NEW YORK

Oct 30	--Close--	--Prev. close--
£ spot	1.6755	1.6540
1 mth	1.6727	1.6711
3 mth	1.6663	1.6463
1 yr	1.6493	1.6272

FT GUIDE to WORLD CURRENCIES
The FT Guide to World Currencies table can be found on the Companies and Finance page in today's edition.

EURO CURRENCY INTEREST RATES

THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.07	94.98	-0.09	95.08	94.96	53,880	504,251
Mar	95.60	95.48	-0.12	95.61	95.47	72,971	505,159
Jun	95.75	95.62	-0.12	95.78	95.60	59,748	421,259

US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.93	95.89	-0.11	95.94	95.88	49	1,678
Mar	96.45	96.33	-0.17	96.45	96.34	57	303
Jun	-	96.58	-0.11	-	-	2	27

All Open interest figs. are for previous day

OTHER CURRENCIES

Oct 30	£	$
Czech Rp	48.5275 - 48.6158	28.9820 - 29.0260
Hungary	383.110 - 383.386	216.660 - 216.960
Iran	5024.70 - 5023.20	3000.00 - 3000.00
Kuwait	0.5047 - 0.5053	0.3014 - 0.3017
Peru	5.1354 - 5.1403	3.0670 - 3.0690
Poland	5.7633 - 5.7767	3.4420 - 3.4498
Russia	27.8788 - 28.0546	16.6500 - 16.7500
U.A.E.	6.1496 - 6.1521	3.6727 - 3.6731

BANK RETURN
The Bank Return table can be found on page 31 in today's edition.

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	1.6718	1.6702	-0.0012	1.6800	1.6676	4,861	47,853
Mar	1.6670	1.6636	-0.0012	1.6680	1.6610	152	1,508
Jun	-	1.6566	-0.0012	1.6610	-	4	1,202

BENCHMARK GOVERNMENT BONDS

UK INTEREST RATES

LONDON MONEY RATES

Oct 30	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7¾ - 5	7½ - 7¾	7⅛ - 7⅛	7⅛ - 7⅛	6⅞ - 6⅞	6½ - 6¾
Sterling CDs	-	-	7⅛ - 7⅛	7⅛ - 7¾	7⅛ - 6⅞	6⅞ - 6⅞
Treasury Bills	-	-	7⅛ - 7⅛	6⅞ - 6⅞	-	-
Bank Bills	-	-	7⅛ - 7⅛	7⅛ - 6⅞	6⅞ - 6⅞	-
Local authority deps.	7 - 6¾	7¾ - 7⅛	7⅛ - 7⅛	7⅛ - 7⅛	7⅛ - 7⅛	6¾ - 6¾
Discount Market deps	7¼ - 7	7¼ - 7	-	7¼ -	-	-

UK clearing bank base lending rate 7¼ per cent from Oct 8, 1998

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc.
Ave. tender rate of discount on Oct 30, 6.5550pc. ECGD fixed rate Stlg. Export Finance. Make up day Oct 30, 1998. Agreed rate for period Nov 25, 1998 to Dec 25, 1998, Scheme III 8.47pc. Reference rate for period Oct 1, 1998 to Oct 30, 1998, Schemes IV & V 7.227pc. Finance House Base Rate 7½pc for Nov 1998.

BANK OF ENGLAND TREASURY BILL TENDER

	Oct 30	Oct 23		Oct 30	Oct 23
Bills on offer	£100m	£100m	Top accepted rate	6.5580%	6.5780%
Total of applications	£805m	£550m	Ave. rate of discount	6.5550%	6.6209%
Total allocated	£100m	£100m	Average yield	6.6639%	6.5286%
Min. accepted bid	£98.365	£98.360	Offer at next tender	£100m	£100m
Allotment at min. level	30%	28%	Min. accept. bid 28 days	-	-

BASE LENDING RATES

	%		%		%
Adam & Company	7.25	Exeter Trust Limited	8.25	Smith & Williamson	7.25
Allied Irish Bank (GB)	7.25	Financial & Gen Bank	8.00	Sun Bank	7.25
●Henry Ansbacher	7.25	●Robert Fleming & Co	7.25	TSB	7.25
Banco Bilbao Vizcaya	7.25	Habib Bank AG Zurich	7.25	United Bank of Kuwait	7.25
Bank of Cyprus	7.25	Heritable & Gen Inv Bk	7.25	Unity Trust Bank Plc	7.25
Bank of Ireland	7.25	C. Hoare & Co	7.25	Whiteaway Laidlaw	7.25
Bank of India	7.25	●Hambros Bank	7.25	Yorkshire Bank	7.25
Bank of Scotland	7.25	Hongkong & Shanghai	7.25		
Barclays Bank	7.25	Investec Bank (UK) Ltd	7.25	● Members of London Investment Banking Association	
Brit Bk of Mid East	7.25	Julian Hodge Bank	7.25		
●Brown Shipley & Co Ltd	7.25	●Leopold Joseph & Sons	7.25		
Citibank NA	7.25	Lloyds Bank	7.25		
Clydesdale Bank	7.25	Midland Bank	7.25		
The Co-operative Bank	7.25	NatWestminster	7.25		
Coutts & Co	7.25	●Rea Brothers	7.25		
Cyprus Popular Bank	7.25	Royal Bk of Scotland	7.25		
Duncan Lawrie	7.25	Scottish Widows Bank	7.50		
		●Singer & Friedlander	7.25		

UK GILTS PRICES

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Continued

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

AIM

Alternative Investment Market

The Alternative Investment Market, designed primarily for small companies, is regulated by the London Stock Exchange but has less demanding rules than the Official list.

AIM - Continued

	Price	+/-	Div	Cvr	Mkt cap	Last xd	City line
Victory Corpn	11½	-4.2	-	-	38.3	-	1496
Voss Net	66½	-20.9	-	-	2.12	-	5281
WAG	49½	-	-	-	11.6	9'97	4407
Weather Action	78½	-7.8	-	-	4.72	-	2244
Weeks Group	2¾	-8.3	0.11	3.4	3.82	6.7	1259
West 175 Ents	60	20.0	-	-	3.12	-	1818
West Bromwich Albion	£115	-	-	-	8.38	-	1861
Western Select	8⅝	-	0.25	1.3	4.82	1'95	4481
Westmount Energy	38½	-2.7	-	-	4.89	-	5413
Winchester	88½	3.0	-	-	8.97	-	5183
World Telecom	98½	-	-	-	24.2	-	1212
Xavier Computer	18⅝	-	-	-	18.8	-	1684
Yeoman	67½	-	-	-	4.37	-	2801

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise indicated. For FTSE index constituents and reserves, last trade prices at or prior to market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS").

Net dividends are shown in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Dividend covers are calculated on a "net" basis.

Market capitalisations shown are calculated separately for each line of stock quoted.

- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange
- ♣ Free annual/interim report available, see details below
- ‡‡ Rule 4.2(a) Stock incorporated non-listed companies
- ¤ Price at time of suspension
- • Indicated dividend after pending scrip and/or rights issue, cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend includes a special payment. t Indicated dividend cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings.

z Dividend includes a special payment. Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1998-99. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1999. K Dividend based on prospectus or other official estimates for 1998. L Estimated annualised dividend, cover based on latest annual earnings.

M Dividend based on prospectus or other official estimates for 1997-98. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). U Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: ex dividend, ex scrip issue, ex rights, ex all, ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1400 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Jones & Shipman (Eng), Terranova Foods (FdPr). Deletions: Peterhead (Cnst), Dickie (J) (Eng), Kuala Kepong (FdPr), Tinsley Rober (PP&P), Property Partnerships (Prop), Salvesen (C) (Trns).

♣ FT Free Annual Reports Club

You can obtain the current annual/interim report of any companies annotated with the ♣. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports may also be ordered via the internet at http://www.icbinc.com. All reports will be sent the next working day, subject to availability.

FT Cityline

For up-to-the-second share prices call FT Cityline on 0336 43 or 0897 43 followed by the four-digit code listed after the share price. Calls are charged at 50p per minute at all times. An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial information obtained via FT Cityline before making any investment decision. All access to and use of FT Cityline is subject to FT Cityline terms and conditions - your copy will be sent free on request. Call 0171 873 4378 for more information on FT Cityline.

For Retail Price Index details call 0891 43 0005.

The FT web site

London share prices are available throughout the trading day with a 20 minute delay from our web site, http://www.ft.com, which also has the closing share prices printed on these pages.

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

GAS DISTRIBUTION

ENGINEERING - Continued

HEALTH CARE

ENGINEERING, VEHICLES

HOUSEHOLD GOODS & TEXT

EXTRACTIVE INDUSTRIES

INSURANCE

FOOD PRODUCERS

FOOD PRODUCERS - Continued

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

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Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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Newton Fund Mgrs - Contd.

Perpetual Fund Management (Jersey) Ltd

JERSEY
(REGULATED)(**)

LUXEMBOURG
(FSA RECOGNISED)

ABN AMRO Funds (a)

Fleming Group - Contd.

Mercury Asset Management

Templeton Global Strategy Funds (a)

LUXEMBOURG
(REGULATED)(**)

ACM Offshore Funds

Cox & Kings Overseas Fund

Credit Agricole Indosuez

Credit Lyonnais Rouse (Bermuda) Ltd

Credit Suisse Asset Mgmt Funds

MFS American Funds

Templeton Russian & East European Debt

Tower Fund

Tweedy, Browne Value Funds

UBS AG

OFFSHORE
INSURANCES

Aberdeen International Ltd

[illegible]

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OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

BERMUDA (REGULATED)(**)

CAYMAN ISLANDS (REGULATED)(**)

MFS Meridian Funds

Marshall Wace Asset Management Limited

Masters International Advisors

Montgomery Emerging Markets Fund Ltd

Morgan Stanley Offs Advisory Mortgage Fd Inc

Rothschild Asset Management - Contd.

Royal Bk of Canada O/S Fd Mgrs Ltd

GUERNSEY (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

IRELAND (FSA RECOGNISED)

AIB Fund Management Ltd

ABN AMRO Global Liquidity Funds Plc

Aberdeen Prolific International Fund Plc

GT Global - Contd.

AIM Global Management Company Limited

AIM International Funds Plc

Abbey National Dublin Investment Fund Plc

Aberdeen Prolific Umbrella Cash Fund Plc

Aberdeen Capital Vision Plc

Asia Dynamic Growth Fund Plc

Asia Small Cos Growth Fund

Hanson Ireland Ltd

Irish Life International Global Funds Plc

John Hancock Funds Plc

Invesco Asset Management (Ireland) Ltd

Scottish Mutual Intl Fund Managers Ltd

Sellers Investment Mngt (Ireland) Ltd

Short-Term Investments Co (Global Series) Plc

Singer & Friedlander Closed Funds Plc

Bank of Cyprus Group

Baring International Fund Managers (Ireland) Ltd

Guinness Flight Select Funds Plc

The United Mutual Investment Company Plc

IRELAND (REGULATED)(**)

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

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Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Oct 30 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Oct 30 / Frs.)

[illegible]

CZECH REP (Oct 30 / Koruna)

[illegible]

DENMARK (Oct 30 / Kr)

[illegible]

FINLAND (Oct 30 / Mka)

[illegible]

FRANCE (Oct 30 / Frs.)

[illegible]

GERMANY (Oct 30 / Dm.)

[illegible]

GREECE (Oct 30 / Drachma)

[illegible]

ITALY (Oct 30 / Lire)

[illegible]

NETHERLANDS (Oct 30 / Fls.)

[illegible]

NORWAY (Oct 30 / Krone)

[illegible]

POLAND (Oct 30 / Zloty)

[illegible]

PORTUGAL (Oct 30 / Escudo)

[illegible]

SPAIN (Oct 30 / Pts.)

[illegible]

SWEDEN (Oct 30 / Kronor)

[illegible]

SWITZERLAND (Oct 30 / Frs.)

[illegible]

TURKEY (Oct 28 / Tk Lira)

[illegible]

PACIFIC

JAPAN (Oct 30 / Yen)

[illegible]

HONG KONG (Oct 30 / H.K.$)

[illegible]

INDONESIA (Oct 30 / Rupiah)

[illegible]

MALAYSIA (Oct 30 / MYR)

[illegible]

NEW ZEALAND (Oct 30 / NZ $)

[illegible]

SINGAPORE (Oct 30 / S$)

[illegible]

AUSTRALIA (Oct 30 / Aust$)

[illegible]

SOUTH KOREA (Oct 30 / Won)

[illegible]

TAIWAN (Oct 30 / TW $)

[illegible]

THAILAND (Oct 30 / Baht)

[illegible]

AMERICAS

CANADA

TORONTO (Oct 30 / Can $)
4 pm close

[illegible]

MONTREAL (Oct 30 / Can $)
4 pm close

[illegible]

MEXICO (Oct 30 / Peso)
12.30pm

[illegible]

AFRICA

SOUTH AFRICA (Oct 30 / Rand)

[illegible]

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY OCTOBER 30 1998 US Dollar Index	%chg since 31/12/97	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/97	Gross Div. Yield	THURSDAY OCTOBER 29 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	189.57	-5.3	167.62	139.64	163.23	202.63	-0.8	3.78	188.13	166.18	138.76	161.43	200.57	219.96	163.88	200.17
Austria (22)	190.64	0.8	168.76	140.42	164.14	164.03	-7.1	2.07	183.25	161.86	135.16	157.24	157.13	253.73	165.45	192.89
Belgium (22)	370.12	45.4	327.65	272.63	318.68	311.79	34.1	2.20	368.55	325.55	271.83	316.24	309.47	396.52	242.42	243.95
Brazil (32)	142.05	-40.4	125.75	104.63	122.31	311.91	-35.3	3.16	132.33	116.89	97.61	113.55	290.28	289.34	102.68	212.42
Canada (119)	188.51	-11.2	166.88	138.85	162.31	211.17	-4.1	1.90	185.22	163.60	136.61	158.93	207.76	248.76	158.94	212.52
Denmark (34)	471.12	5.3	417.06	347.02	405.65	403.43	-3.2	1.81	467.82	413.24	345.06	401.43	399.27	537.39	408.26	408.41
Finland (28)	454.72	63.3	402.54	334.95	391.53	480.83	51.1	1.91	445.04	393.11	328.25	381.87	468.89	506.46	267.59	308.01
France (78)	296.78	24.0	262.73	218.61	255.54	258.70	14.6	2.43	288.74	259.47	216.66	252.05	254.97	345.18	222.09	225.36
Germany (55)	263.25	14.8	233.04	193.91	226.67	226.67	5.7	1.42	257.60	227.55	190.00	221.04	221.04	325.61	208.90	213.73
Greece (38)	269.01	0.0	238.14	198.15	231.62	542.88	0.0	1.64	260.13	229.78	191.87	223.21	526.80	393.20	211.47	-
Hong Kong, China (66)	317.71	-11.0	281.25	234.02	273.56	316.96	-11.0	4.23	308.20	272.24	227.32	264.46	306.57	389.74	198.64	358.04
Indonesia (26)	36.31	-45.0	32.14	26.74	31.26	169.28	-24.0	1.88	38.40	33.92	28.32	32.95	176.68	136.38	19.04	123.53
Ireland (16)	469.58	16.9	415.89	345.89	404.32	440.40	10.9	2.15	458.63	405.12	338.28	393.54	428.13	560.44	373.24	373.24
Italy (54)	150.08	27.8	132.85	110.55	129.22	183.62	18.2	1.57	148.45	131.13	109.49	127.38	181.08	184.49	105.79	105.90
Japan (479)	92.77	-2.8	82.12	68.33	79.88	68.33	-12.8	1.10	92.92	82.08	68.54	79.73	68.54	109.65	76.83	108.83
Mexico (29)	1151.98	-38.1	1019.79	848.55	991.89	12750.06	-19.8	2.00	1096.98	968.97	809.10	941.27	12277.25	1803.07	787.15	1507.73
Netherlands (27)	454.77	10.9	402.59	334.99	391.58	387.67	2.2	2.40	448.38	396.07	330.72	384.75	380.81	582.38	381.03	400.74
New Zealand (14)	54.52	-28.5	48.27	40.16	46.95	54.89	-21.7	5.62	54.05	47.75	39.87	46.38	54.51	89.56	45.68	82.32
Norway (37)	246.95	-22.7	218.61	181.90	212.63	247.10	-22.7	2.66	235.55	208.07	173.74	202.12	236.06	357.71	181.88	351.45
Philippines (22)	76.16	-4.0	67.42	56.10	65.58	159.15	-2.9	1.01	72.49	64.03	53.47	62.20	147.21	106.98	42.48	83.51
Portugal (18)	252.06	0.0	223.13	185.66	217.02	292.88	0.0	1.10	248.05	219.11	182.96	212.85	287.25	299.38	194.13	-
Singapore (41)	179.40	-20.3	158.81	132.14	154.47	134.61	-23.0	2.27	177.25	156.57	130.73	152.09	132.28	264.82	102.45	227.58
South Africa (38)	211.79	-20.2	187.48	156.00	182.35	259.69	-9.0	3.57	206.13	182.08	152.04	176.88	257.37	348.20	151.55	269.34
Spain (31)	357.32	31.5	316.32	263.20	307.67	382.01	21.7	2.06	349.02	308.30	257.43	299.48	370.78	417.73	241.06	252.70
Sweden (49)	469.54	0.0	415.66	345.86	404.29	543.37	-1.5	2.17	458.13	404.68	337.91	393.11	527.04	628.19	378.16	472.17
Switzerland (28)	388.65	13.4	342.28	284.81	332.92	324.61	5.3	1.28	382.71	338.06	282.28	328.40	318.34	439.46	306.98	306.98
Thailand (35)	18.86	-2.3	16.70	13.89	16.24	25.90	-25.4	3.51	19.32	17.07	14.25	16.58	27.80	56.03	8.15	28.72
United Kingdom (209)	354.32	6.8	313.66	260.99	305.08	313.66	4.9	3.12	349.94	309.11	258.11	300.27	309.11	401.84	307.96	315.53
USA (617)	449.07	13.3	387.54	330.78	388.66	449.07	13.3	1.46	443.83	392.05	327.36	380.84	443.83	495.88	368.42	368.42
Americas (797)	400.17	11.1	354.25	294.76	344.56	339.48	11.7	1.49	395.20	349.09	291.49	339.11	335.30	497.08	335.19	335.38
Europe (744)	320.40	13.9	291.60	242.63	283.62	285.10	7.7	2.28	324.66	286.78	239.46	278.58	289.73	386.24	272.02	273.35
Eurobloc (351)	94.52	0.0	83.67	69.62	81.38	88.11	0.0	1.96	93.08	82.20	68.64	79.85	86.41	113.28	81.59	-
Nordic (149)	444.49	7.8	393.48	327.41	382.72	437.61	3.8	2.04	434.64	383.93	320.58	372.95	426.01	555.97	380.04	417.44
Pacific Basin (755)	100.78	-4.8	89.20	74.22	86.76	76.92	-12.7	1.87	100.53	88.80	74.15	86.26	78.80	121.33	82.88	119.61
Euro-Pacific (1499)	195.78	7.4	173.32	144.22	168.58	158.75	0.5	2.10	193.65	171.05	142.84	166.17	156.63	220.19	166.00	183.76
North America (736)	431.57	12.2	382.04	317.89	371.59	432.75	12.5	1.47	426.45	376.99	314.54	365.92	427.83	489.80	358.75	358.75
Europe Ex. UK (535)	306.08	17.9	270.96	225.46	263.55	277.39	9.4	1.88	301.37	266.21	222.28	258.80	271.83	368.32	242.12	244.70
Europe Ex. Eurobloc (393)	90.70	0.0	80.29	66.81	78.10	88.58	0.0	2.61	89.50	79.06	66.01	76.80	87.05	103.58	77.40	-
Europe Ex. UK Ex. Eurobloc (184)	91.62	0.0	81.11	67.49	78.89	86.04	0.0	1.57	90.83	79.71	66.55	77.43	84.12	109.21	75.16	-
Pacific Ex. Japan (276)	176.05	-12.2	155.85	129.68	151.56	180.29	-10.8	3.87	172.98	152.79	127.58	148.42	176.94	228.25	128.26	210.91
World Ex. Eurobloc (1984)	94.83	0.0	83.95	69.85	81.65	93.24	0.0	1.73	93.78	82.84	69.17	80.47	92.18	103.16	83.09	-
World Ex. US (1718)	195.73	5.1	173.27	144.18	168.53	163.77	-0.6	2.11	193.40	170.84	142.65	165.95	161.49	221.91	165.95	187.14
World Ex. UK (2126)	270.09	9.5	239.10	198.95	232.56	239.65	6.6	1.61	268.92	235.76	196.88	229.04	236.84	298.02	234.24	238.87
World Ex. Japan (1856)	369.19	10.8	326.82	271.94	317.88	357.14	9.1	1.85	364.27	321.78	268.68	312.57	351.94	411.23	312.96	313.64
The World Index (2335)	277.29	9.2	245.47	204.26	238.76	246.41	8.4	1.77	274.03	242.08	202.12	235.13	243.27	308.56	241.30	245.21

Emerging markets:

IFC investable indices

Dollar terms

Oct 29 Market		Day's chg %	% Chg since 31/12/97
Latin America			
Argentina	806.50	+0.4	-27.7
Brazil	265.92	-4.0	-44.9
Chile	415.62	+0.4	-35.3
Colombia[1]	318.93	+0.2	-61.4
Mexico	465.79	+0.5	-40.8
Peru[2]	132.41	-1.1	-40.2
Venezuela[3]	332.00	-0.3	-63.7
East Asia			
China[4]	28.60	-4.7	-48.3
India[7]	80.75	+0.1	-27.1
Indonesia[8]	18.02	+1.0	-48.5
Korea[5]	30.06	+2.3	+25.7
Malaysia	63.68	-1.1	-30.1
Pakistan[9]	76.78	+1.2	-69.1
Philippines	102.63	+4.1	-9.0
Sri Lanka[10]	64.49	-0.7	-44.6
Taiwan, China[6]	117.81	+1.3	-18.7
Thailand	82.41	+4.5	+32.7
Europe			
Czech Rep	49.81	+2.2	-9.0
Greece	471.21	-1.3	+45.4
Hungary[11]	232.16	+1.0	-26.2
Poland[12]	504.58	+0.1	-15.4
Portugal	278.39	+2.2	+31.9
Russia	19.35	+4.5	-87.0
Slovakia	44.76	-2.7	-54.9
Turkey[14]	135.67		-58.5
Mideast/Africa			
Egypt	65.82	-1.1	-29.4
Israel	94.07	-1.7	-22.7
Jordan	208.23		-1.9
Morocco	177.13	+0.2	+36.0
S Africa[13]	139.74	+1.3	-22.8
Zimbabwe[15]	99.10	-1.5	-60.6
Regions			
Composite	172.03	+0.3	-30.1
Latin America	400.86	-0.9	-40.8
Asia	88.33	+1.7	-18.0
EMEA	109.94	+0.6	-25.6
Europe	130.25	+0.7	-30.9
Eastn Europe	51.45	+1.5	-69.4
ME & Africa	57.25	+0.6	-20.0
Comp + Malay	171.94	+0.3	-30.1
Asia + Malay	88.83	+1.1	-19.4

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1988; (15)Aug 2 1993.

Latest indices are available by fax online.

● FT Free Annual Reports Club [illegible]

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OTHER OFFSHORE FUNDS

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Oct 30	Oct 29	Oct 28	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	8592.10	8495.03	8371.97	9337.97 (17/7)	7539.07 (31/8)	9337.97 (17/7/98)	41.22 (8/7/32)
Home Bonds	106.68	106.61	106.71	107.82 (5/10)	104.42 (11/6)	107.82 (5/10/98)	54.99 (1/10/81)
Transport	2891.92	2800.52	2750.24	3686.02 (16/4)	2345.00 (9/10)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	301.45	297.86	300.28	320.51 (8/10)	262.66 (8/1)	320.51 (8/10/98)	16.53 (8/7/32)

DJ Ind. Day's high 8718.25 (8599.03) Low 8491.39 (8305.54) (Theoretical) Day's high 8659.81 (8496.32) Low 8488.12 (8352.40) (Actual)

Standard and Poors	Oct 30	Oct 29	Oct 28	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1098.67	1085.93	1068.09	1186.75 (17/7)	927.69 (8/1)	1186.75 (17/7/98)	4.40 (1/6/32)
Industrials¶	1309.70	1298.34	1276.68	1380.48 (17/7)	1077.40 (9/1)	1380.48 (17/7/98)	3.52 (30/6/32)
Financial¶	119.71	116.82	114.38	147.89 (14/7)	95.80 (8/10)	147.89 (14/7/98)	7.13 (4/8/74)
Others NYSE Comp.	543.35	536.31	527.65	600.75 (17/7)	477.20 (8/10)	600.75 (17/7/98)	4.84 (28/4/42)
Amex Comp	645.41	637.48	634.52	[illegible]	[illegible]	[illegible]	[illegible]
NASDAQ Comp	1771.39	1752.19	1732.35	[illegible]	[illegible]	[illegible]	[illegible]
Russell 2000	378.16	374.48	371.47	491.41 (21/4)	310.28 (8/10)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	Oct 23	Oct 16	Oct 9	Year ago
Dow Jones Ind. Div. Yield	1.77	1.78	1.89	1.73

	Oct 28	Oct 21	Oct 14	Year ago
S & P Ind. Div. yield	1.38	1.36	1.47	1.55
S & P Ind. P/E ratio	31.32	31.24	29.50	24.60

US DATA

MARKET ACTIVITY

Volume (million)	Oct 30	Oct 29	Oct 28
NYSE	778.033	869.490	677.590
Amex	31.63	26.89	22.76
NASDAQ	920.930	904.070	782.425

NYSE	Oct 30	Oct 29	Oct 28
Issues Traded	3,519	3,493	3,490
Rises	2,208	1,859	1,449
Falls	875	1,149	1,52
Unchanged	436	485	519
New Highs	51	40	28
New Lows	24	31	29

NYSE TRADING ACTIVITY

Volume: 778,033,800

JAPAN

Nikkei 225 13564.51 13588.72 13516.87

Day's High: 13835.58. Day's low: 13454.84.

TOKYO TRADING ACTIVITY

GERMANY

FRANCE

UK

INDEX FUTURES

S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	1098.60	1105.20	+8.70	1110.00	1095.10	87,170	391,979
Mar	1112.50	1115.20	+8.90	1120.00	1108.90	489	9,499

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	13840.0	13550.0	-170.0	13880.0	13450.0	28,649	182,924
Mar	13790.0	13530.0	-110.0	13790.0	13460.0	58	7,567

Open interest figures for previous day.

CAC-40 (200 x Index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Oct	3524.0	3493.0	-	3554.0	3510.5	91,513	57,204
Nov	3530.0	3491.5	-	3582.0	3518.0	5,476	182,874

DAX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	4649.0	4715.0	+127.0	4752.5	4641.0	26,602	82,759
Mar	4710.0	4754.0	+118.5	4790.0	4703.0	130	1,444

OMX	Open	Sett Price	Change	High	Low	Est. vol	Open int
Nov	620.00	628.50	+19.50	612.00	593.00	16,237	215,832
Dec	625.00	631.00	+20.25	631.00	625.50	12	574

SOFFEX	Open	Sett Price	Change	High	Low	Est. vol	Open int
Dec	6516.0	6567.0	+136.0	6610.0	6510.0	28,365	160,402
Mar	6548.0	6588.0	+110.0	6625.0	6545.0	24	4,208

WORLD MARKETS AT A GLANCE

Country	Index	Oct 30	Oct 29	Oct 28	1998 High	1998 Low	Yield	P/E
Argentina	General	18269.63	17467.09	17403.51	23486.47 23/3	12303.14 10/9	3.72	11.4
Australia	All Ordinaries	2647.3	2617.3	2615.2	2881.49 16/4	2459.20 1/9	3.06	20.5
	All Mining	627.4	623.2	618.7	713.10 23/4	488.80 31/8		
Austria	Credit Aktien	[illegible]	378.10	378.74	584.34 28/5	346.44 8/10	2.05	12
	ATX Index	1149.51	1102.16	1102.02	1628.56 28/5	982.06 1/10		
Hungary	Bux	5312.05	5080.06	5030.45	[illegible] 23/4	3775.82 21/8	na	na
India	BSE Sens.	2812.49	2845.18	2833.04	[illegible] 21/4	2764.16 20/10		
	Calc. 500	570.60	578.98	576.80	895.82 21/4	557.88 20/10	na	na
Indonesia	Jakarta Comp.	300.77	300.41	312.29	554.10 2/2	256.83 21/9	3.45	18.7
Portugal	BVL 30	4657.51	4577.22	4517.73	6176.88 22.4	3090.88 2/10	2.16	24.9
	PSI 20	10539.05	10455.49	10317.35	14282.90 22.4	8114.91 2/10		
Russia	RTS	57.54	55.38	53.54	411.81 5/1	38.53 5/10	na	na
Singapore	SES All-S'pore	348.87	345.37	340.92	437.98 19/3	259.30 4/9	2.55	17.4
	Straits Times	1204.92	1185.05	1180.22	1806.75 19/3	805.04 4/9		

Market ended 2.96 per cent stronger, swept higher by strong gains in Brazil and strong US growth data.

Banks, News Corp, Brambles Industries and Mayne Nickless were at the forefront as dies doubled falls.

VA Tech, the engineering group, was the leading gainer of the day, rallying 11.6 per cent.

Bus maker NABI added 15 per cent as local investors sought small and medium-sized issues.

Shares ended higher, although volumes remained thin ahead of government meeting over crisis plan.

THE NASDAQ STOCK MARKET

4 pm close October 30

[illegible]

THE NASDAQ STOCK MARKET

[illegible]

AMEX PRICES

4 pm close October 30

[illegible]

EASDAQ

[illegible]

NEW YORK STOCK EXCHANGE PRICES

pm close October 30

Price data supplied by Extel, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

§ Dealings suspended.

Euro-zone enthusiasm

A common currency is attractive to big investors, but individual countries are still keen to single themselves out as business locations, says Peter Marsh

Many investors in Europe are likely to champion the new common currency Montage: Gary Cummins

Beat Siegrist, chief executive of Schärer Schweiter Mettler, a Swiss textile machine maker, gazes out at the sublime view from his factory overlooking Lake Zurich.

Pointing out that his plant is in one of the most beautiful, but also most expensive, parts of Europe, Mr Siegrist observes: "The surroundings are good – but we can stay here *only if* we employ smart designers and if we are able to get our cost structures right."

Mr Siegrist's words will strike a chord with thousands of other industrial managers mulling over location strategies within Europe. A host of trade-offs between the relative costs of different parts of the continent and the likely benefits *that come from setting up in* specific regions come into play in such discussions.

The uncertain economic outlook for Europe, as it struggles with the effects of financial turmoil in Asia, Russia and parts of South America, is an overlying concern. Added to this are the imponderables surrounding the introduction of the single European currency on January 1 1999.

Just as economic growth across the continent is likely to be knocked back by the global shocks of the past year, the birth of the euro might be similarly painful, as the 11 countries in the new "euro-zone" switch to a "one-size-fits-all" monetary policy administered by the European Central Bank in Frankfurt.

Yet, in spite of concerns over competitiveness in high *cost countries, such as Switzerland* and Germany, the extent to which location affects business performance can be overstated.

According to a 1993 study on global electronics manufacturing by McKinsey, the management consultancy, only 20 per cent of the difference between what were judged to be high and low-performing electronics plants could be accounted for by location, with 55 per cent of the difference due to the quality of design in each factory and 25 per cent related to manufacturing processes.

Intense arguments over whether, for instance, a Japanese inward investor would be better advised to set up a new plant in Manchester or Munich are, however, fanned by inward investment agencies across Europe, set up by national or regional governments eager to grab a bigger share of the $350bn a year spent globally on foreign direct investment by businesses – *roughly a third of* which comes the way of western Europe. The UK and France are Europe's most successful nations in attracting such investment, between them receiving roughly half of western Europe's total inflows.

Of total foreign direct investment, roughly half is accounted for by mergers and acquisitions, the rest by companies providing finance *to expand existing or* develop new businesses.

Foreign direct investment has been the main factor driving the globalisation of the world economy since the early 1960s. Over this period, this investment has expanded at an average of 8 per cent a year, twice the comparable rate of growth in world gross domestic product, and 30 per cent higher than the *rate of expansion in merchandise* trade.

Even so, it is important not to overlook the part played by investment by local businesses, where companies already in a specific location invest in order to boost production or efficiency.

Take Germany and Italy, each of which in 1996 received only about $3.8bn in inward foreign investment. *These appear small sums for* such big economies. The figures amount to less than two-thirds of the investment received in 1996 by the Netherlands, one of Europe's smaller countries, while the UK received $30bn in foreign investment in the same year.

However, in both Germany and Italy, local investment by companies already present has played a big part in *boosting economic growth.*

This underlines probably the first and most important factor influencing decisions over business location – the degree to which a company can take advantage of an existing strength tied to its current location.

It is often the case that the best policy on business investment is: do it where you are already. Siemens, Germany's biggest electron*ics and electrical goods com*pany, has since the 1950s built up its production facilities in southern Germany in fields such as machine tool controls, which are sold throughout Europe.

The region's strengths in design techniques and automated production systems outweigh the disadvantages of high German labour costs, say Siemens executives. *Therefore, it does not make* much sense to move anywhere else.

It is a similar story at Trumpf, another German company and the world's biggest maker of laser cutting systems, which is committed to a heavy investment programme at its main plant near Stuttgart, while also building up production capacity in places outside Europe such as the US.

Mr Siegrist of Schärer Schweiter Mettler, which is a world leader in specialised high-speed winding machines used in a variety of textile processes, sees a promising future for the company despite the high costs associated with its plant in Horgen. However, this means adapting the strategy of the company to play to the strengths associ*ated with this particular* part of Switzerland, which for 200 years has been associated with precision engineering skills.

"We are selling not machines but cost reductions, made possible by the engineering expertise we can apply for the benefit of cus*tomers," he says.*

In the three years in which he has run the company, Mr Siegrist has "outsourced" most of the company's component production to low-cost suppliers. Service, sales and technical people account for half the company's 140 employees, up from just over a fifth two years ago.

This strategy – as a result of which the company's direct labour costs linked to production account for only 9 per cent of its SFr100m annual sales – is, says Mr Siegrist, the correct way to maximise value from SSM's technical and design skills.

Many companies also often want to move closer to existing or new customers, and in some cases, as with component groups supplying Japanese consumer electronics or *motor manufacturers, they* will positively be encouraged to do so, having already built up good and close relationships back in Japan. Companies are more likely to strike up good relationships with customers from a nearby site, rather than one that is hundreds of kilometres away.

It is for this reason that all 125 of the main suppliers to IBM's computer plant in Greenock, Scotland, one of Europe's biggest computer factories, have in recent years set up special warehouse or "service" points in the UK, even though in *many cases the components* are made in the US or east Asia.

A similar rationale is behind the decisions by a cluster of specialist components suppliers for the white goods industry to start plants around Berlin, expressly to serve a large new washing machine factory set up near the city by BSH, the German domestic *appliance company owned* jointly by Bosch and Siemens.

The need to take advantage of "plus points" associated with a specific region – such as access to new technologies or a more favourable tax regime can also be important. Such an approach *might come into play, for* instance, in a decision by a US or Japanese electronics company to set up close to an established centre of electronics expertise in Europe, such as exists in the Cambridge area of the UK.

In a similar way, a textile producing company might be tempted to set up in an area close to a "cluster" of existing textile companies, for instance around Florence, Italy.

Just as important are decisions related to tax breaks that can come from setting up in "assisted areas" where government hand-outs are available, or moves to take advantage of low-cost labour in eastern Europe in fields such as production of car components.

The Japanese electronics and car companies which poured investment into Europe in the 1970s and 1980s did so in order to substitute local production for goods exported from Japan, where the sudden strength of the yen was making the cost of goods too high to be competitive.

During the 1990s US companies have also followed this course. Ametek, one of the world's biggest makers of small electric motors for vacuum cleaners, has set up a range of production bases in eastern Europe and Italy to serve its European cus*tomers rather than ship the* motors from the US.

Many companies are also keen to spread themselves around the world in order to minimise the risks to their businesses posed by the possibility of local economic shocks.

Companies looking to follow this path will choose places for investment associated with low political and *exchange-rate hazards.* In this context it will be interesting to see if the four European Union nations that are not initially in the "euro-zone" – the UK, Greece, Denmark and Sweden – suffer any resulting reduction in investment in the next few years.

FT GUIDE TO THE WEEK

,ONDAY 2

limate control talks

inisters and officials from some 180 ɔuntries are meeting in Buenos Aires r a two-week conference on reducing ıe *greenhouse gas emissions blamed* ɔr climate change. The conference – ıe fourth session for parties to the UN amework convention on climate hange – will try to establish "the rules f *the game" for reaching the targets* n emission reductions agreed at last)ecember's climate change conference ı Kyoto. Participants will try to flesh ıut three "flexible mechanisms" – *missions trading, clean development* ınd joint implementation – that were ɔut forward there as a means of educing the economic costs of neeting the emissions-reduction argets. If *details cannot be finalised,* he governments will try to agree on a schedule for completing them in the near future.

Schröder's travels

Gerhard Schröder, Germany's new chancellor, travels to the UK at the start of a busy week of international introductory meetings. After London and the Confederation of British *Industry in Birmingham today, he goes* to the Netherlands on Wednesday and Poland on Thursday. He meets the Danish prime minister in Bonn on Friday. Joschka Fischer, Green party foreign minister, will accompany Mr Schröder to London before leaving for *Washington and* New York on Tuesday. Despite his party's pacifist background, Mr Fischer has pledged continuity in German foreign policy and wants, as a first priority, to build the *trust of the country's allies.*

Flying visit

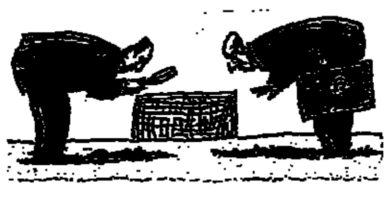
Airports Council International, the body representing the world's airports, holds *its eighth world assembly in Sydney,* Australia (to November 4). On the agenda are the impact on airports of airline alliances, coping with the millennium bomb environmental concerns and the future of the Asia/ Pacific region as a travel market in the *light of the economic crisis.*

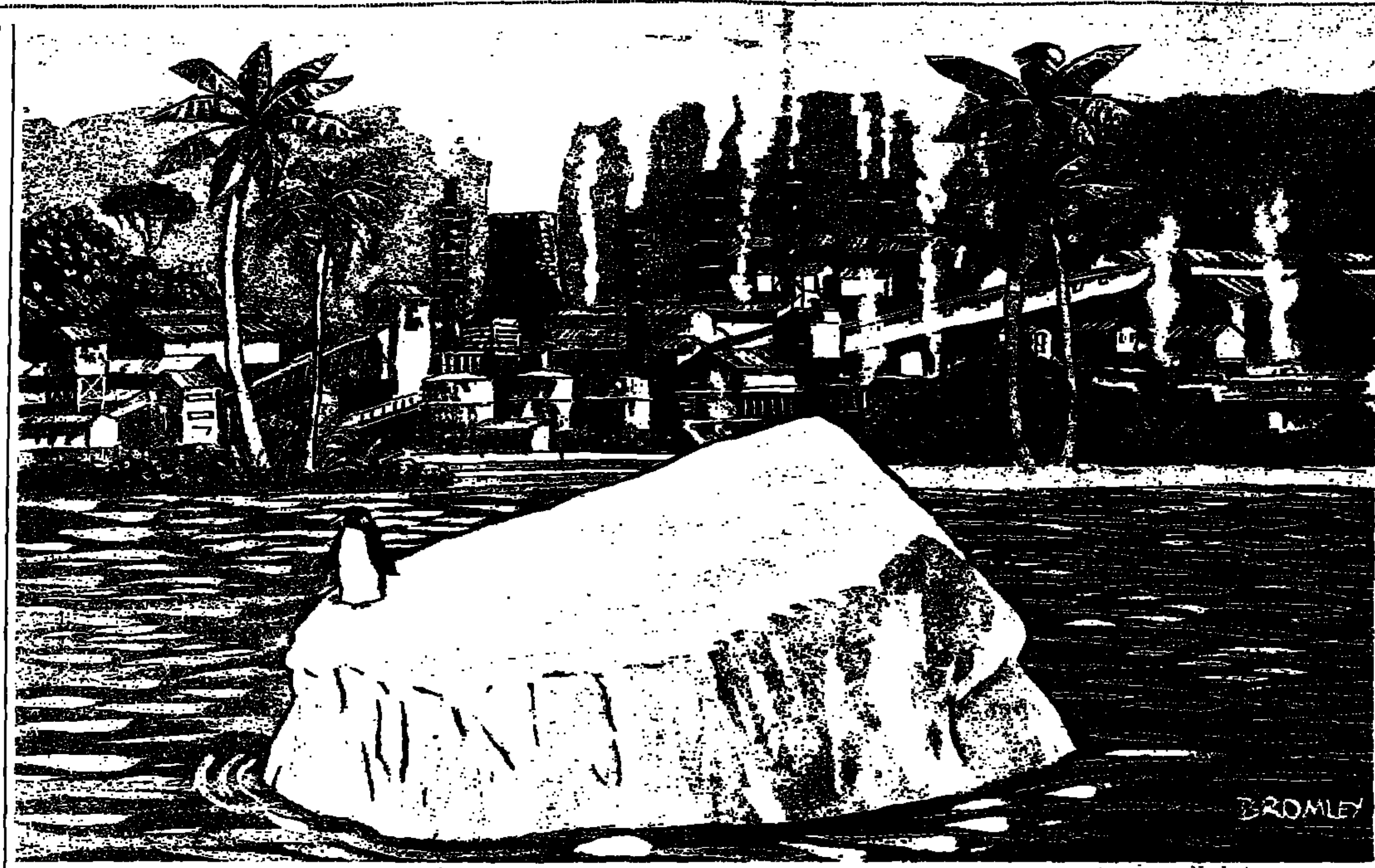
Manitoba probe

Public hearings are scheduled to start in Winnipeg into allegations that the Manitoba Progressive Conservative party *used "dirty tricks" to take votes* from the rival New Democrats in provincial elections.

Pitch inspection

A delegation from Fifa, football's international governing body, begins a week-long visit to South Korea to inspect proposed venues for the 2002 World Cup, which the country is *hosting jointly with Japan. The far* eastern financial crisis has hit South Korea badly, *reducing tax revenues* which many of the host cities were relying on to build stadiums.





Ways of meeting targets on emission reductions agreed at last year's Kyoto climate change conference will be thrashed out over two weeks in Buenos Aires from Monday

FT Survey

Business Locations in Europe.

Holidays

Brazil, Colombia, Iran, Belarus, Belgium, Luxembourg, Spain.

TUESDAY 3

Congressional mid-terms

US mid-term congressional elections get under way. At stake are all 435 seats in the House of Representatives, 34 Senate seats and 36 governors' offices.

Conservation at 50

The IUCN – *World Conservation Union* – celebrates its 50th birthday with a three-day conference in Fontainebleau, France, opened by French president Jacques Chirac. IUCN, the world's largest conservation organisation, links more than 900 non-governmental *organisations, governments* and some 12,000 experts from 138 countries.

Budget taster

Gordon Brown, the UK chancellor, announces his pre-Budget report, *which prepares* the ground for the full budget in March next year. Last year's pre-Budget report focused on promoting transparency and stability, including the adoption of a set of *targets through the Code for Fiscal* Stability. The global and domestic slowdown that has taken place since then threatens to prevent achievement of achieving those targets, according to some commentators. The pre-Budget statement also allows the *Treasury to update its economic* forecasts from those published in the budget in March. The change likely to grab the headlines is the downgrading in Treasury predictions for growth next year.

FT Survey

Belgium.

Holidays

Australia, Japan, Sri Lanka, Iran.

WEDNESDAY 4

Farmers' liability

Proposals to extend the European *Union directive on product liability to* cover primary agricultural products like meat and cereals will be discussed at a two-day plenary session of the *European Parliament in Brussels.* The proposal, by the parliament's BSE inquiry committee, would open the way for consumers to claim compensation for harm caused by defective farm products. Members of the new Northern Ireland Assembly will attend *the Wednesday session as part of a* three-day visit to Brussels to see how the EU works.

Finance forum

Investment professionals from France, *UK, US and Switzerland meet in the* Swiss city of Lausanne for a three-day investment and finance forum. The meeting, which is focused this year on institutional management and wealth management, aims to enable investors to compare financial services, *investment products and management* techniques. Among the topics for discussion are prospects for the asset management business, trends in social security, financial market ethics, and the use of financial products data bases.

THURSDAY 5

Waiting for a rate

The Bank of England's monetary policy committee announces its latest *decision on interest rates at noon, with* most commentators expecting it to trim rates further. Last month it cut official interest rate from 7.50 per cent to 7.25 per cent. This week it is likely to slice another quarter of one percentage point off. Many business groups, including the Confederation of British Industry, and financial analysts have called for bigger cuts.

Donor meeting

An African Development Bank donors' meeting is held in Copenhagen over the next two days, to discuss the next three-year replenishment of the *African* Development Fund. The bank hopes *agreement will be reached in time for a* 1999 top-up, after progress in three previous meetings from May.

Hotel developments

Hotel managers and others involved in *the hospitality business meet at the* Lausanne Hotel School in Switzerland to discuss competitiveness in the international hospitality industry. The two-day conference is jointly organised by the European and international hotel management schools associations, *EuroCHRIE and IAHMS.* Speakers include Stéphane Garelli, director of the World Competitiveness Report produced by the IMD business school in Lausanne and Jürgen Fischer, president of Hilton Europe.

FT Surveys

Netherlands; Information Technology Review.

FRIDAY 6

Disputes settled

The dispute settlement body of the World Trade Organisation holds a special meeting in Geneva to approve two *important reports of the WTO's* appellate body. One involves a *landmark ruling* against a US import ban on shrimps from countries whose shrimp fishing fleets do not use turtle excluder devices. The *second upholds* a judgment against an Australian ban on imports of uncooked salmon, which the appellate body agreed did not have adequate scientific justification.

FT Survey

World Energy Review.

Holiday

Morocco.

SATURDAY 7

CDU regroups

Germany's Christian Democratic Union, which is meeting in Bonn, is expected to elect Wolfgang Schäuble, CDU parliamentary leader, as its new chairman. *Mr Schäuble would succeed* Helmut Kohl, the former chancellor, who is standing down after 25 years as party leader. The conference will also elect four deputy chairmen, expected to include Volker Rühe, the former defence minister.

Holidays

Tunisia, Belarus, Russia, Ukraine.

SUNDAY 8

Independence poll

Citizens of New Caledonia vote in a referendum on cross-party proposals which would set the French South *Pacific island on the road to* independence. Negotiations on the future of the vast nickel-rich island began in 1988 after several years of clashes between government and separatists.

Venzuela votes

Venezuela holds parliamentary and gubernatorial elections.

Holiday

Ukraine.

Compiled by Roger Beale
Fax 44 171 873 3196

ECONOMIC DIARY

Other economic news

Monday: Order books in the UK manufacturing sector are believed to be contracting more slowly. However, the purchasing managers' *inmdex for October should* show export orders still under pressure from the relative strength of sterling.
Wednesday: US factory orders are thought to have increased by some 1.8 per *cent in the three months to* September, helped by a sizeable 3.2 per cent increase in durable goods orders.
Thursday: The US non-farm payroll is likely to show an increase of 175,000 in October, a 2.3 per cent rise year on year. Going forward, labour markets are expected to cool down. Corporate *lay-offs have risen and* business confidence is moderating, says Deutsche Bank Research. A decline in German unemployment is *expected to continue.*
Friday: Japan's current account surplus is thought to have increased 52 per cent year on year in September to Y,1730bn. France's Q3 quarterly INSEE-business survey should reflect a deterioration in business confidence.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual	Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	France	Sep producer price index**	-1.5%	-1.2%		UK	Sep manufacturing output*	-0.3%	-0.5%
Nov 2	Germany	Oct purchasing managers index†		51.48		UK	Sep manufacturing output**	0.4%	0.2%
	UK	*Oct Chart' Inst' of Purch' Managers*		46.4		UK	*Oct CBI distributive trades*		14
	UK	Oct prov' M0*		0.5%		US	Initial claims Oct 31		301k
	UK	Oct prov' M0**		5.9%		US	State benefits Oct 24		2169k
	US	Sep personal income	0.2%	0.5%		US	Sep home completions		1.51m
	US	Sep personal consumer expenditure	0.4%	0.6%		US	M1 week ended Oct 26		$12.5bn
	US	Oct Nat' Ass' of Purchasing Managers	49.0%	49.4%		US	M2 week ended Oct 26		$26.7bn
	US	Sep construction spending	0.1%	0.1%		US	M3 week ended Oct 26		$33.2bn
	US	Oct domestic auto sales	6.8m	6.9m		Japan	Oct trade balance (first 20 days not†)		Y554bn
	US	*Oct domestic light truck sales*	*6.7m*	*6.6m*	Fri	US	Oct nonfarm payrolls	175k	69k
Tue	UK	Oct official reserves		-$1.0m	Nov 6	US	Oct manufacturing payrolls	-15k	-16k
Nov 3	US	Sep leading indicators		Unch		US	Oct hourly earnings	0.3%	0.1%
Wed	UK	Oct Chart' Ins' Purch'/Supply survey		54.0		US	Oct average workweek	34.5	34.4
Nov 4	US	Sep factory orders	0.5%	0.9%		US	Oct unemployment rate	4.6%	4.6%
	US	*Sep factory inventories*		*0.2%*		US	Sep consumer credit	$4.2bn	$4.6bn
Thur	Japan	Sep overall personal consumer expen**		-2.4%	During the week...				
Nov 5	Japan	Sep personal consumer expen workers**		-2.2%		Germany	Sep capital account preliminary		DM0.7bn
	Germany	Oct unemployment† pan Germany	22.5k	-41k		Germany	Sep net foreign bond purchases		DM28.0bn
	Germany	Oct unemployment† west	-10k	-12k		Germany	Sep manufact' orders pan Germany*	-0.2%	-1.3%
	Germany	Oct unemployment† east	12.5k	-29k		Germany	Oct final cost of living* west		-0.3%
	Germany	Aug employment† west	11k	18k		Germany	Oct final cost of living** west		-0.7%
	Germany	Oct vacancies† west		4k		Germany	Oct cost of living* pan Germany	-0.2%	-0.2%
	UK	Sep industrial production*	-0.4%	-0.3%		Germany	Oct cost of living** pan Germany	0.7%	0.8%
	UK	Sep industrial production**	0.9%	0.7%					

*month on month, **year on year, †seasonally adjusted. Statistics, courtesy Standard & Poor's MMS.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 02.11.98 / Final Prices for Trading on 05.10.98

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	35.67	13.10	12.70	0.86
0100	32.65	13.10	12.70	0.86
0130	38.23	13.10	12.70	0.86
0200	38.23	13.10	12.70	0.86
0230	28.93	13.10	12.70	0.86
0300	13.11	13.10	12.70	0.86
0330	32.65	13.10	12.70	0.86
0400	32.65	13.10	12.70	0.86
0430	12.01	13.10	12.70	0.86
0500	9.58	13.10	12.70	0.86
0530	10.30	9.55	9.55	0.00
0600	9.55	9.55	9.55	0.00
0630	10.30	14.78	14.40	0.86
0700	15.06	15.34	14.94	0.86
0730	17.00	17.01	16.61	0.86
0800	17.00	24.06	23.68	0.86
0830	28.74	24.09	23.72	0.86
0900	28.74	24.12	23.76	0.86
0930	28.29	24.31	23.94	0.86
1000	46.55	24.31	23.94	0.86
1030	48.57	24.31	23.94	0.86
1100	48.58	22.25	21.89	0.86
1130	48.63	22.28	21.92	0.86
1200	48.70	91.54	91.19	0.86
1230	69.53	91.53	91.18	0.86
1300	57.63	22.26	21.90	0.86
1330	45.65	22.20	21.83	0.86
1400	41.99	21.72	21.34	0.86
1430	36.02	19.71	19.33	0.86
1500	37.88	19.71	19.32	0.86
1530	37.54	19.71	19.32	0.86
1600	37.83	19.74	19.37	0.86
1630	42.62	20.42	20.07	0.86
1700	78.61	23.69	23.35	0.86
1730	141.04	23.54	23.21	0.86
1800	140.60	20.47	20.13	0.86
1830	96.61	20.61	20.60	0.86
1900	56.63	92.37	92.25	0.86
1930	45.78	92.38	92.24	0.86
2000	39.66	24.54	24.28	0.86
2030	34.78	23.76	23.39	0.86
2100	37.55	23.66	23.30	0.86
2130	34.74	23.65	23.29	0.86
2200	28.74	19.86	19.47	0.86
2230	21.98	19.86	19.47	0.86
2300	16.14	17.82	17.43	0.86
2330	10.80	17.72	17.32	0.86
2400	17.00	14.79	14.40	0.86

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.88/MWh becomes 1.888p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development of its electricity transmission system for the purpose of optimising the costs arising from the operation of that system. Charges are calculated by NGC and are based on payments made by NGC into the pool. TSP is also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool and on TSP on behalf of NGC by Energy Settlements and Information Services Limited. Anyone wishing to register such information should telephone 0115 945 6789 between 8.30am and 5.15pm Monday to Friday.
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Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on 01.11.98 / Final Prices for Trading on 04.10.98

½ hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	17.00	11.22	11.50	1.32
0100	34.35	10.75	11.02	1.32
0130	34.35	10.75	11.02	1.32
0200	32.49	10.75	11.02	1.32
0230	17.00	10.75	11.02	1.32
0300	11.41	10.75	11.02	1.32
0330	11.17	10.75	11.02	1.32
0400	9.55	10.75	11.02	1.32
0430	9.36	9.36	9.36	0.00
0500	9.37	9.36	9.36	0.00
0530	9.38	11.17	11.45	1.32
0600	9.36	11.17	11.45	1.32
0630	9.36	11.17	11.45	1.32
0700	9.36	11.17	11.45	1.32
0730	9.36	11.17	11.45	1.32
0800	8.36	11.17	11.45	1.32
0830	9.37	11.17	11.45	1.32
0900	9.55	11.36	11.64	1.32
0930	11.21	13.10	13.38	1.32
1000	12.01	13.43	13.71	1.32
1030	12.01	13.43	13.71	1.32
1100	18.95	15.42	15.70	1.32
1130	18.95	15.43	15.71	1.32
1200	32.65	19.66	19.94	1.32
1230	35.67	19.66	19.94	1.32
1300	34.67	16.39	16.67	1.32
1330	18.95	15.43	15.71	1.32
1400	8.80	15.25	15.52	1.32
1430	12.01	15.42	15.70	1.32
1500	12.01	15.42	15.70	1.32
1530	9.60	14.00	14.00	0.00
1600	9.60	14.00	14.00	0.00
1630	17.19	15.42	15.70	1.32
1700	22.65	15.42	15.70	1.32
1730	38.65	15.42	15.70	1.32
1800	38.65	15.42	15.70	1.32
1830	39.65	15.42	15.70	1.32
1900	39.65	17.07	17.35	1.32
1930	22.65	20.98	21.26	1.32
2000	26.71	20.98	21.26	1.32
2030	22.65	20.98	21.26	1.32
2100	20.55	17.07	17.35	1.32
2130	22.65	19.66	19.94	1.32
2200	16.53	19.66	19.94	1.32
2230	17.19	17.07	17.35	1.32
2300	13.11	13.43	13.71	1.32
2330	11.63	15.42	15.70	1.32
2400	32.65	9.40	9.40	0.00

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.88/MWh becomes 1.888p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development of its electricity transmission system for the purpose of optimising the costs arising from the operation of that system. Charges are calculated by NGC and are based on payments made by NGC into the pool. TSP is also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool and on TSP on behalf of NGC by Energy Settlements and Information Services Limited. Anyone wishing to register such information should telephone 0115 945 6789 between 8.30am and 5.15pm Monday to Friday.
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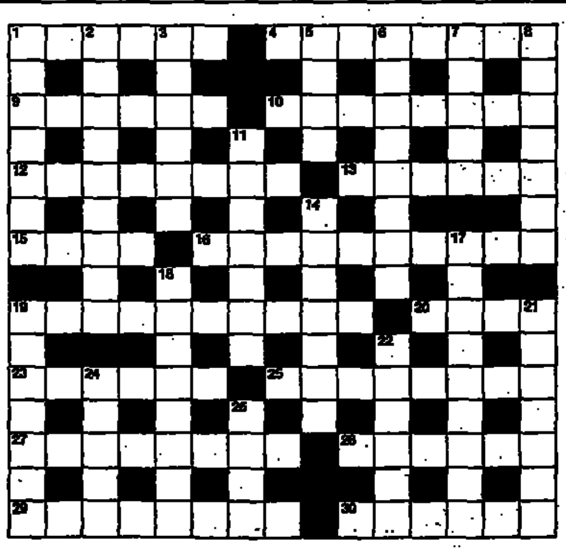
ACROSS
1 Supply lines (6)
4 Mingle in the enclosure (8)
9 Provide space for volumes put aside (6)
10 Important pie-maker in New York (3,5)
12 Sailor banished to quarters for being a defaulter (8)
13 Supplies rushed on board (6)
15 The advantage of keenness (4)
16 Run and puff – doctor required (10)
19 A smack on the behind gives a lingering sensation (10)
21 Big name in the performing arts (4)
23 Dull-witted, note, after punishing bouts (6)
25 Cunning bridgehead (8)
27 Move west from Wyoming in terrible disgrace (8)
28 Island boat putting out on journey (6)
29 The trouble about an academic is he puts pleasure before work! (8)
30 Go back to do repair work on tuff, we hear (6)

DOWN
1 While away time in a sea journey (7)
2 Management blunder (9)
3 Putting out the flags? (6)
5 A classical author I'd nothing against at first (4)
6 Sort of banana has insect visible on the outside (8)
7 Superior kind of cut (5)
8 She puts on other people's clothes (7)
11 Principal method of progress (7)
14 Firmly established sports match? (7)
17 Right servant to start work (5,4)
18 Pat his arm in error (8)
19 Do away with Basil? Oh, that's wrong! (7)
21 Refresh with a breather and a mineral (7)
22 Small boy put in the high chair (6)
24 Adjusted number on front door (5)
26 Responsibility we can't avoid? (4)



Winner of Puzzle No.9,816: J. Craig, New Malden, Surrey

MONDAY PRIZE CROSSWORD

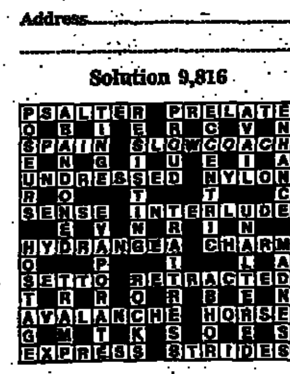
No.9,828 Set by DANTE

A prize of a Tombow Lucca fountain pen and rollerball set, worth £125, will be awarded for the first correct solution opened. Solutions by Thursday November 12, marked Monday Crossword 9,828 on the *envelope,* to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday November 16. Please allow 28 days for delivery of prizes.

Name.......................................

Address.......................................

Solution 9,816



JOTTER PAD

TRANSPORT INFRASTRUCTURE by Charles Batchelor

Needful needlework

The European Commission is at last recognising the importance of improving the continent's patchwork links

Stitching together Europe's fragmented *transport networks* is an ambitious goal. It is perhaps no surprise that it is taking longer to realise than its promoters hoped.

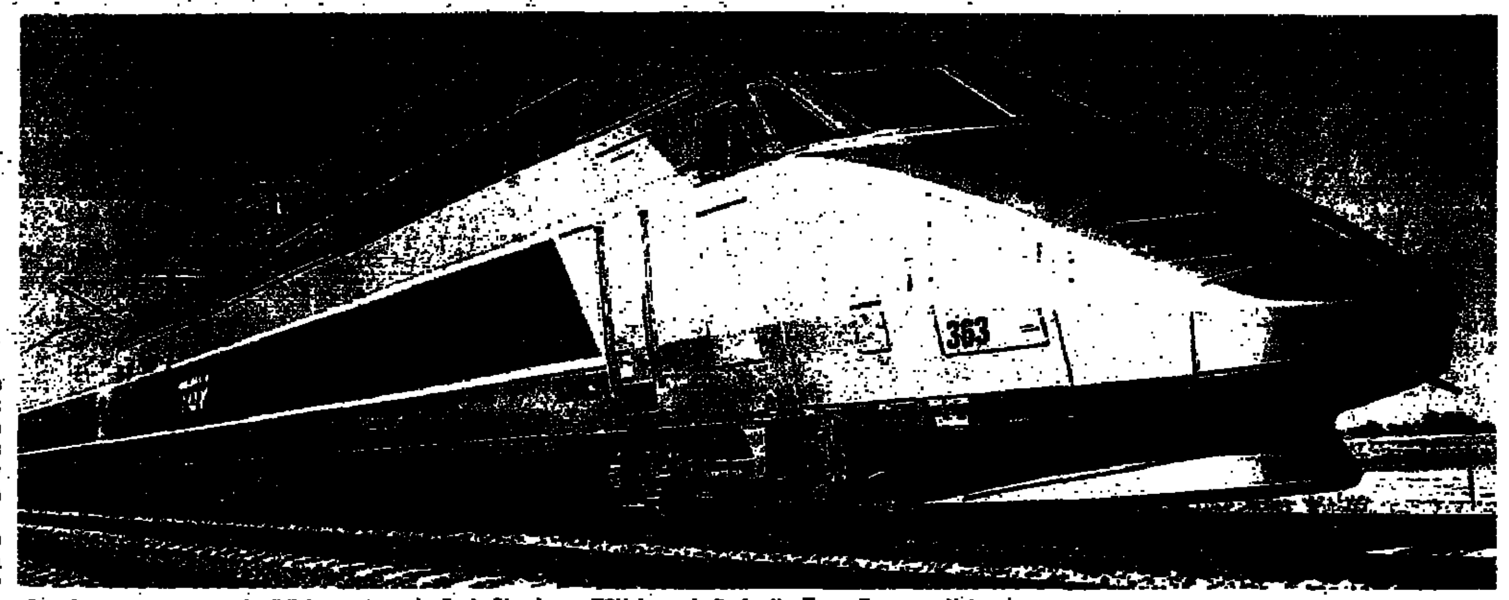
The Trans-European Networks (TENs) programme, a Ecu300bn initiative to create smoother road, rail, sea and air links is moving ahead more slowly than expected, though several big schemes are nearing completion.

In eastern Europe, which western politicians and officials are keen to tie in more closely with the European Union countries, the EU's Corridors programme is starting to upgrade transport links but faces even tougher financial constraints than the TENs.

The aim of the TENs programme, which was launched in 1994, is to link countries on the edge of Europe, such as Portugal and Greece, more closely to the centre and to improve *their internal transport* links. At the same time the European Commission wants to reduce congestion on busy road and rail routes in the heart of Europe.

A third goal is to reduce the relative dependence on roads for most passenger and freight transport. The growth of the motorway network has led to a decline in the role of other forms of transport, most notably rail. The car accounts for 79 per cent of all passenger travel while road transport carries 70 per cent of all freight.

The main focus points of the TENs programme are 14 high-priority infrastructure schemes including the building of Malpensa airport in Milan; high speed rail links between south western France and Madrid and between Paris and Strasbourg; motorways between Greece and Bulgaria and, in Portugal, between Lisbon and Valladolid. They also include four large traffic management projects.



Creating more high-speed rail links, such as the Paris-Strasbourg TGV, is a priority for the Trans-European Networks programme

The EU has provided funds to kick-start the TENs and Corridor programmes but large sums are still needed from governments and the private sector.

Slow progress on several of the TENs schemes has prompted the EU to take a close look at how best to arrange public-private partnerships. The Commission has produced a set of recommendations intended to involve the private sector at an earlier stage, reduce the bureaucracy involved in setting up such partnerships and help develop new financial mechanisms.

Three of the TENs schemes – a rail link from Cork to Larne, the Oresund link between Denmark and Sweden and Malpensa airport in Milan – are either complete or are near completion, and funding has been arranged for six others, including the UK's west coast rail line and the Betuwe freight line from Rotterdam to Germany.

But finance for five others, including two rail lines which will run through tunnels under the Alps, remains uncertain. The Commission has proposed doubling the EU contribution to Ecu5bn (£3.5bn) for the projects' next phase.

Despite the patchy progress of the TENs programme, the EU is pressing ahead with its plans for a complementary network of 10 east European corridors from the Baltics to the Aegean and from the Polish-German border to Moscow.

The problem once again is mainly financial. The cost of building or upgrading road and rail links in eastern Europe is usually lower than in the west but lower incomes mean it is difficult to charge very much for their use. Even corridor II, one of the most heavily trafficked routes, linking Berlin with Moscow via Warsaw and Minsk, is not financially viable along its entire length, though short sections of motorway might be made to pay through tolls.

One study estimated that governments would have to supply two-thirds of the total required corridor funding of between Ecu66bn and Ecu94bn.

Forecasting traffic volumes on these routes is frequently more difficult than for the TENs because of the lack of reliable historical statistics and the rapidly changing economic situation in the region.

The first privately financed motorway in eastern Europe, the 43km-long M1 between Budapest and Vienna, achieved less than two-thirds of forecast traffic flows in its early months.

In eastern Europe the traffic planners are working under an additional pressure. Growing prosperity has led to a rapid shift from rail to road and from public transport generally to the private car. Unless public transport links can be improved rapidly, the eastern half of the continent may be storing up the congestion and pollution problems already resulting from excessive dependence on the car and the lorry in western Europe.

The TENs and corridor programmes are both indications of the European Commission's somewhat belated acceptance of the importance of transport infrastructure.

After neglecting transport for a long time, Brussels took its first step to defining a set of goals and planning the means to achieve them in 1992 with the publication of a white paper, "The Future Development of the Common Transport Policy".

Even so, with the exception of the large cross-border schemes, most transport improvements will come from small-scale projects undertaken by national governments or lower tiers of local government.

IRELAND by John Murray Brown

Advantages come under fresh attack

Low tax and skilled labour have been the country's making but now seem threatened

Ireland's isolation on the western edge of the European Union, far from being a hindrance to attracting foreign investment, has proved a blessing.

The real draw for the foreign multinationals flocking to Ireland has been the cocktail of low corporation tax, a large supply of skilled labour and low inflation – all of which would now appear to be under attack.

On the tax front, the new centre-left German government has signalled it wants to address the issue of predatory tax regimes in rival EU states which poach companies and divert budget revenues. Ireland is seen as the main culprit.

On the labour front, some leading multinationals particularly in software engineering, report difficulties finding the right type of recruit, such has been the staggering increase in new arrivals over the past five years.

And now even the benign macro-economic picture looks under strain with some commentators worried Ireland could see a rise in inflation as the country moves to adopt the single currency from next January, at the same time bringing interest rates down to the German-French benchmark which is likely to be the rate at which the euro is launched.

Ireland has now become the world's largest software exporter outside the US

Whatever happens, Ireland has had an incredible run. The Industrial Development Agency – the government body that approves inward investments – long ago targeted what have turned out to be the main growth areas of information technology, electronics, healthcare and financial services.

For a country that had little industrial infrastructure when it secured its independence from Britain in the 1920s, Ireland has now become the world's largest software exporter outside the US. US companies in the electronics sector now choose Ireland ahead of any other EU country to open a European operation. In the call centre sector, Ireland accounts for 30 per cent of all pan-European operations.

Foreign companies generate three-quarters of Ireland's manufacturing exports, over half of manufacturing output and more than two-thirds of manufacturing employment.

Intel, Microsoft, Apple – all the big US IT companies have operations here. Even when Digital closed a manufacturing facility in Galway, it resurfaced in Dublin a few years later with a customer services back office.

But such has been the flood of new investment that the local supply of labour is under pressure. Multinationals now work directly with the universities and technical colleges – not just to shape the curriculum to their needs but to head-hunt the best graduates.

The emerging skills shortage is forcing companies to go to extraordinary lengths. The Bolton Trust, a charitable organisation which provides companies with a database of Irish expatriates who might be interested in relocating to Ireland, organises an annual jobs fair at Christmas when many people return home to be with their families. Last year the high skills pool programme attracted a staggering 20,000 inquiries with more than 70 companies attending the fair.

Separately, Irish Emigrant Professional – a Galway-based company – runs a web site newsletter for overseas IT graduates who might be interested in coming home.

But threatened changes in the tax regime could be far more damaging than any skills shortage. Even the IDA acknowledges that tax is the key ingredient in its marketing effort. It is particularly important for high growth companies and in areas such as pharmaceuticals where retained earnings go towards the research and development costs of the next generation of products.

The current 10 per cent tax rate for manufacturing companies and financial services is in place until 2010 for existing companies. From 2003, the country will move to a standard rate of 12.5 per cent for all companies, against the current rate of 32 per cent.

During the transitional period, those companies that move to Ireland will pay 10 per cent until 2003 and 12.5 per cent thereafter. To prevent a rush of companies signing up during this period, the European Commission and the Irish investment authorities have agreed a *quota of new* investments.

Mary Harney, deputy prime minister and minister for enterprise trade and employment, insists there is no threat to businesses based in Ireland. The new tax rates are "enshrined" in an agreement between the *Commission* and the Irish government, she says.

"Instead of calling for what would be effectively higher corporate tax rates, European leaders should be concentrating on bringing corporate and other taxes down to stimulate job growth."

THE EUROPEAN ECONOMY by Richard Adams

Fortress Europe under flood threat

The protective theories of Emu are showing signs of breach, but the optimists still talk confidently of longer-term stability

Only a few months ago, "Fortress Europe" thought it was secure from the international economic downturn that was lapping across the globe from the shores of Asia and America.

Protected by the approach of the European single currency from January next year, the 11 member countries of European economic and monetary union (Emu) have escaped the worst of the upheavals. As a result, European central banks, as well as the European Central Bank itself, had been sceptical of the need to follow the US Federal Reserve and cut interest rates.

But it seems now that the euro-zone will not be so insulated from the international climate after all. Slower growth forecasts, weaker trade, and predictions of a European credit squeeze all threaten to overshadow the start of the single currency.

Growth within the euro-zone slowed to 2.1 per cent in the second quarter of this year, from 3.5 per cent in the first quarter. And at the end of October the European Commission announced that it had sharply downgraded its forecast for growth across the combined 11 economies for next year. Instead of robust growth in output of 3.2 per cent, as it had previously expected, the Commission's statisticians now estimate growth will be 2.6 per cent.

The lower growth forecast set off renewed calls for lower interest rates within the core European countries, ahead of January's establishment of a euro-zone monetary policy controlled by the ECB. "Political pressure has been mounting, but European central banks continue to procrastinate," said Credit Suisse First Boston, the investment bank.

Mounting signs of a more severe downturn – perhaps caused by a restriction in the amount of available credit – will increase the political pressure for a looser monetary policy, especially in Germany with a new government elected on a platform of job creation.

That government, led by Gerhard Schröder, will tend to be more sympathetic to demand-led fiscal policy and income redistribution. It is more likely to resemble the French government of Lionel Jospin than the UK model designed by Tony Blair and Gordon Brown.

Mr Jospin has been at the forefront of calls for lower interest rates, saying that a cut was "essential". "We must be sure that the launch of the euro does not lead to an undervalued dollar," Mr Jospin declared recently.

But the risk is that the new ECB may choose to advertise its independence by setting itself against rate cuts. Wim Duisenberg, the ECB president, has made it plain that he sees less of a need for cuts than his counterparts at the Bank of England.

The danger is that the European governments may revert to fiscal activism to promote growth, while the central bank maintains a tight rein on monetary policy. That adds up to an appreciating currency – hence Mr Jospin's remark.

If the euro does start life in stronger fettle against the US dollar, the ECB may well become concerned, even though it will not be following an explicit exchange rate target. A strong euro will do some of the the ECB's job for it, by throttling off exports and making imports more attractive, allowing it to cut interest rates as domestic European growth slows.

Foreign direct investment inflows ($m)

Host country/region	1985-1990 Annual average	1991	1992	1993	1994	1995	1996
Austria	407	380	947	977	1,311	[illegible]	3,806
Belgium/Luxembourg	4,069	9,363	11,286	10,750	8,514	[illegible]	13,920
Denmark	514	1,553	1,017	1,713	5,006	-4,139	-773
Finland	427	-233	396	864	1,496	1,044	1,227
France	7,161	15,153	21,840	20,754	16,628	23,735	20,809
Germany	2,338	4,110	2,640	1,828	819	8,940	3,851
Greece	711	1,135	1,144	977	981	1,053	1,004
Ireland	192	1,062	1,438	1,113	934	2,317	1,456
Italy	3,409	2,401	3,950	4,383	2,163	4,878	3,739
Netherlands	5,568	6,372	7,850	8,758	7,382	10,766	6,290
Portugal	1,041	2,448	1,873	1,534	1,270	663	607
Spain	6,570	12,493	13,276	8,144	9,359	6,118	6,396
Sweden	1,264	6,351	-5	3,705	6,241	14,273	5,486
UK	19,023	16,210	16,140	15,540	10,300	22,030	30,053
European Union	52,685	78,777	83,793	81,029	72,395	110,884	99,416
Gibraltar	27	37	89	40	-1	1	1
Iceland	-1	33	14	8	-1	4	4
Norway	597	-396	716	2,083	623	2,160	3,424
Switzerland	2,317	3,178	1,249	899	4,104	2,800	2,534
Other western Europe	2,840	2,850	2,068	2,950	4,725	4,705	5,963
Total western Europe	55,625	81,627	85,861	83,979	77,120	115,589	106,379

Source: United Nations

In the meantime, and in spite of the new lower forecast for next year, the European Union will still be the strongest growth engine that the world has left, if the US economy continues to splutter. The good news is that the "Asia crisis" is well into its second year, with signs of stabilisation in South Korea and some progress in Japan's long-running banking crisis.

Europe is also far less exposed to the sort of credit crunch that could do so much damage in the US, as investors lose their appetite for risk and capital markets dry up as a source of funding. Unlike their US counterparts, European companies overwhelmingly rely on bank loans and overdrafts for funding. According to the Bank for International Settlements, companies in the single currency zone have between 75 per cent and 90 per cent of their debt in the form of bank loans. That means they are less reliant on the capital markets for finance through bond issuance. In contrast, US non-financial enterprises have only 30 per cent of liabilities in bank loans, while UK companies have 50 per cent.

European banks did suffer from the collapse in emerging market investment. But analysts at Nikko Europe, the investment house, think that may actually factor investment.

"Having had their fingers burnt by chasing yield in the more exotic emerging markets, they may now be more willing to lend to familiar domestic names," Nikko predicted. The arrival of the euro may also help the development of a market in corporate bonds, issued in the single currency.

Another main difference with the US is that the core European economies have less well-developed equity markets. That causes its own problems, but in a period of falling stock prices internationally, it means that far fewer members of the euro-zone public will feel a negative effect from the decline in the value of their portfolios.

Things may not be so bleak in a year's time. The European Commission expects a rebound in growth in 2000, to 2.9 per cent. It also thinks that fiscal consolidation across the 15 member states of the European Union would help stabilise the overall economies of the 15 members.

"This will not make the EU economy completely immune from the world financial storm, but will protect it to some extent," the EC said.

CASE STUDY
MOTOROLA

Emu: a poor imitation of GSM

A common currency cannot match the advances achieved through the global system for mobile telephony

Motorola, the big US manufacturer of communications equipment, semicondutors and automotive components, has had a presence in Europe for 30 years. Today, it employs around 22,500 people across the region, takes in 14 manufacturing plants, and operates 18 research and development facilities. In total, Europe accounts for around 23 per cent of its global turnover.

But the Chicago-based group says that its investment approach is still driven primarily by market considerations, rather than production cost factors. "The fundamental investment rationale for developed regions is market development – getting closer to customers," says Arnold Brenner, executive vice-president and the man in charge of the European, Middle East and African region.

"We generally put our engineering, manufacturing, and marketing facilities together because we find a lot of synergies, especially between engineering development and manufacturing processes, and in our communications businesses.

"Getting close to the customer has always been a successful way for us to develop products, so we make investments based principally on how large an opportunity we see in the market, and our ability to penetrate that market by knowing a lot about it.

"It's very rare these days to make an investment just because [a place] is the lowest-cost manufacturing base. Cost is important, but it's lower down on the decision-making tree in terms of whether to put investment into a country."

Mr Brenner admits that, for this reason, a good deal of recent manufacturing-type investment has tended to go into the large continental European markets – for example, the new DM500m cellular phone plant in Flensburg, Germany, which opened recently.

In other cases, familiarity with a site, and knowledge of the available labour pool, has encouraged reinvestment. Mr Brenner cites the opening last month of a new £82m GSM worldwide headquarters in Swindon in the UK.

"We've been in the Swindon, area for eight years now. We found ourselves needing more capacity and space. It's a very favourable employment atmosphere. So we decided to stay and build the factory."

By contrast, in some of Europe's less developed areas, the focus tends to be tilted towards research and development. "In the developing countries, we are starting out principally with R&D laboratories," says Mr Brenner. "What we find is that R&D is not the province of the developed countries in Europe or the US – in eastern Europe and Russia, for example, there are just some excellent scientists."

These investment decisions, Mr Brenner explains, are usually taken by the company's product divisions, headquartered back in the US – although like many multinationals, Motorola actually runs its non-US operations through a matrix system, which overlays geographical responsiblities on the core business product-line reporting structure.

"Who makes the decision? It's shared because obviously the country manager and the regional manager have knowledge of the stability of the economy, the political aspects, how easy it is to recruit trained people, and so on. But since the funding derives from businesses, the final decision is usually taken there. These are all pretty hefty investments which normally would go back to the business centre – communications, say, or components – in the US."

Mr Brenner thinks that monetary union itself will have little impact on investment decisions. "First of all, we support it, and think it will do nothing but help. Having a single currency in Europe is going to simplify matters – marketing, pricing structures across all the countries that participate, and eventually accounting as well – things like payroll, invoicing. We think it'll eventually be reasonably simple.

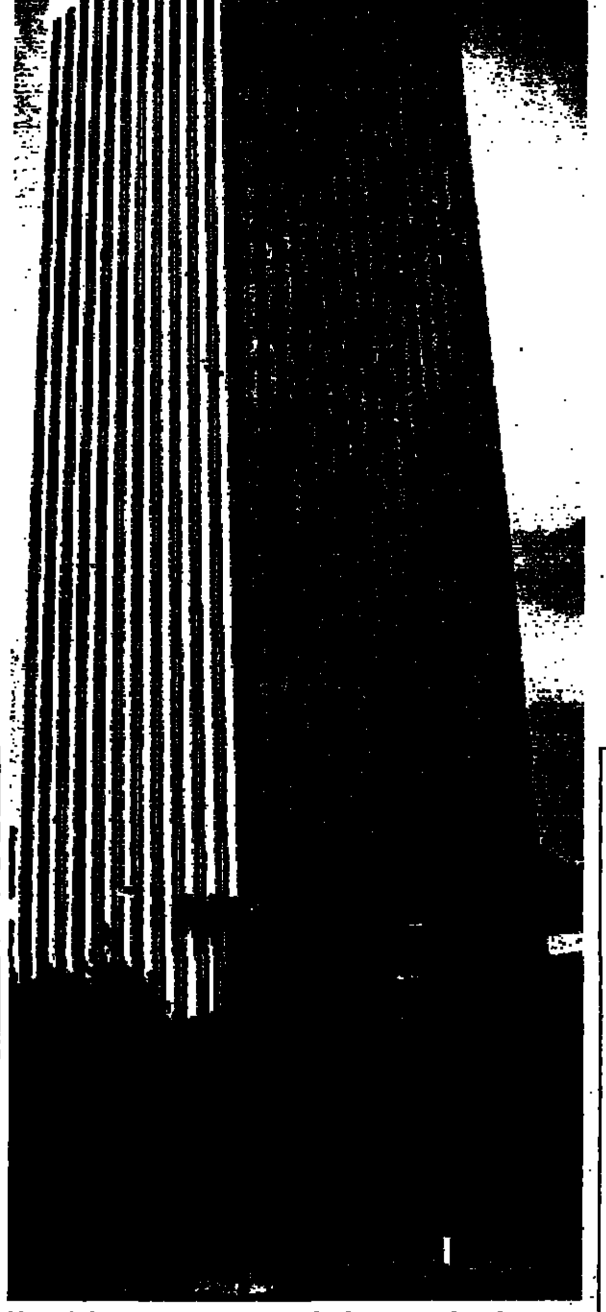
"We will be euro-capable in January 1999, and we've told our customers that we will invoice them – or receive payment – in either their choice of local currency or the euro. But it has not made any difference in terms of our investment decisions."

But what about in five years' time, particularly as monetary union fosters greater harmonisation across Europe nations? Here, he is more ambivalent, acknowledging that this could stimulate the market, and possibly encourage investment inflows.

"I do think harmonisation will probably do things to enlarge the market," he says. "Let me take it from Emu to the cellular telecommunications business." He recalls the stage when many big countries had different networks, and customers were unable to take a telephone across borders and use it sucessfully.

"When GSM became standardised, the market grew phenonmenally because people could roam freely. Whether Emu has that kind of impact or effect, I don't think I can predict. I can't see it would hurt. But I think just having the ability to trade in common denominators is going to make for a successful bringing together of the business community in terms of enlarging the market."

Nikki Tait



Motorola is one of a number of foreign investors to have been attracted to Madrid's landmark Torre Picasso

SPAIN by Tom Burns

Two hits in the top 10

Madrid and Barcelona have a special pulling power

When Healey & Baker, the UK real estate group, surveyed more than 500 senior executives based in nine European countries earlier this year in order to rank the best business locations, only one country – Spain – had two cities in the top 10. Barcelona came sixth in the poll – after London, Paris, Frankfurt, Brussels and Amsterdam – and Madrid came seventh.

The same survey put Spain in second place, behind Germany and ahead of the UK, when ranking the countries that are likely to emerge as Europe's best manufacturing locations within the next five years.

Such findings are not surprising for big operators in the real estate sector. "We are betting very strongly on Spain," says José Joaquín Puig de la Bellacasa, director of an office recently opened in Madrid by Lend Lease, the Australian property and financial services company.

This sentiment is fuelled by the bullish fundamentals that underpin the Spanish economy and by the onset of the European Union's single currency. Spain is on the radar screen because it has low inflation and one of the highest economic expansion trends in the euro-zone.

"Investors are looking at positive components, such as the euro, at clear price levels and at sustainable economic growth," says Victor Perez, vice-president in Spain of Richard Ellis, the international real estate group. "Rents are still low and there is a lot of room for qualitative returns."

The upshot is that there is no lack of international clients seeking space in domestic office and shopping centre developments and a wealth of international funds willing to finance such projects. "We are at the early stages of a very good cycle," says Mr Perez.

The broad picture of Spain goes beyond the general brush strokes that paint a stable political system in which a business-friendly centre-right government is stoking strong economic potential with ambitious privatisation and deregulation programmes. One of the key features of the domestic business environment is that Spain has become a springboard for investment into Latin America by consolidating its position as by far the biggest EU member state investing in that region.

The perception of such realities help to explain the overall appeal of Spain as a business location and the specific pulling power of Madrid and Barcelona. "We are looking not just at Spain but at a Spain which is a bridge to Latin America," says Lend Lease's Mr Puig de la Bellacasa. "What we are seeing is that there is a lot that can and will be done."

Roger Cook, chief executive of Healey & Baker in Spain, believes Barcelona has emerged ahead of Madrid in this year's survey (last year their positions were reversed) because Barcelona works harder at promoting its image. The fact that both are rated so highly "is extremely positive for Spain".

When deciding between the two cities, the capital may win out. Madrid may lack the life-style attractions of Barcelona, but it is bigger and more important than its rival. With more than 3m inhabitants and a further 2m in its immediate hinterland, Madrid is, alongside Berlin, the largest urban conglomeration in the heart of Europe, and after London and Paris and easily the largest in southern Europe.

Set right in the middle of the Iberian peninsula, equidistant from Lisbon and Barcelona, Madrid is a natural distribution and logistics base. It is also, in virtually every sense, Spain's decision-making centre.

Madrid is the home of the central government and the national parliament, of the supreme and appeal courts, of the central bank and the stock market regulator. The city's Bolsa is the dominant domestic stock market and is ranked fourth in Europe in terms of trading volume. And Madrid is the headquarters of all the main banks and securities houses. Half of the 500 top domestic companies, and virtually all the multinationals based in Spain, have their head offices in Madrid.

Negative factors that have traditionally gone against Madrid have been the expensive and underdeveloped telecommunications facilities and poor transport infrastructure. Both are on the mend.

The deregulation of the telecoms sector, which has involved the launch of two new fixed telephony companies in the past two years, is in the process of slashing costs of phone calls and competition has significantly improved the services of Telefónica, Spain's main operator.

Madrid's transport infrastructure is also undergoing a high profile change. A major overhaul of terminals and runways at Madrid's Barajas airport, which will be largely completed this year, will lift air passenger traffic to 27.5m in 2000 up from 20m in 1997. Similar large investment projects will create a high-speed rail link to Barcelona and wholly update the motorway network that fans out from Madrid to the rest of Spain.

CENTRAL EUROPE by Stefan Wagstyl

Keen to tune up with the West

Poland, Hungary and the Czech Republic are insistent their fortunes should be tied to the EU, not Russia's baleful influence

The combined effects of the Russian crisis, the turmoil in financial markets and the global economic slowdown have presented the countries of central Europe with a considerable challenge.

If these states can survive the upheaval, they will go a long way towards establishing their credentials for full inclusion in Western economic structures, headed by the EU. If they fail, they could find themselves languishing in the ranks of emerging markets and waiting a long time before they can prove to the world they are clear of Russia's baleful economic influence.

Poland, the Czech Republic and Hungary, the principal targets for foreign investment in central Europe, have so far weathered the storm without suffering too much economic damage.

Nonetheless, all have seen their stock markets fall, especially Poland and Hungary (Czech equities were already weak). Some banks have suffered losses on Russian investments, notably in the Czech Republic.

Exporters serving the Russian markets have been hit hard, though their importance in the economy as a whole is limited, even in Poland, where Russia bought 8 per cent of exports before the crisis and the rest of the Commonwealth of Independent States a further 7 per cent.

The deeper the fall in financial markets and the bigger the dip in the world economy, the more the weaknesses of central Europe will be exposed.

Government officials in the region say that the direct impact of turmoil in Russia is much less significant than the dislocation of the world economy in general and the EU economy in particular. They are more worried about the fact that the European Commission has this month cut its growth forecast for 1999 from 3.2 per cent to 2.6 per cent.

Such a slowdown will hit central Europe hard because the EU accounts for about two-thirds of exports. The impact will be especially great on the many manufacturers producing semi-finished goods and components for west European industry. Food exporters can expect to suffer less.

Dresdner Kleinwort Benson, the investment banking arm of Dresdner Bank of Germany, estimates that the slowdown in central Europe could be quite sharp - with GDP growth in Poland, the Czech Republic and Hungary combined falling from 5 per cent in 1997 to 3.5 per cent this year and next.

Poland is best placed to pull through because it is a large economy with a substantial domestic market of 40m consumers, because it is relatively less dependent on the fickle flows of international capital, and because it has pursued sound macroeconomic policies for a number of years that have included keeping a tight control on government borrowing.

The government has cut its growth forecast for 1999 to 5.1 per cent, compared with 5.7 per cent this year. Private economists say the figure may fall to 4 per cent.

Hungary is more exposed because it is a more open economy with exports accounting for 40 per cent of GDP growth and with foreign investors dominating key industries, notably banking. Also, government borrowing is bigger than in Poland, with a likely fiscal deficit for 1998 of over 4 per cent, compared with just over 2 per cent for Poland. GDP growth could fall from 5 per cent in 1999 to below 4 per cent.

The Czech Republic is in the worst position but mainly due to domestic difficulties and not the international economy. The country was already in recession when the latest stage of the crisis struck this summer. The economy is expected to decline this year by 1 per cent and will do well to achieve a flat result next year.

The country's biggest challenge is to refinance the banking system, which has suffered from heavy bad debts and a lack of capital.

These short-term considerations will not dim the long-term attractions of investing in central Europe. All three countries remain committed to joining the EU - and the EU remains committed to receiving them early next decade. All have labour costs well below western Europe's and all, notably Poland, have strong domestic markets for consumer and investment goods.

However, multinational companies, with problems in their own backyards, are certain to look more cautiously at investments in emerging markets than they have done in the recent past. Central Europe will not escape unscathed from this review.

EU FUNDING by Patrick Jenkins

Investment first aid

The EU is refocusing its subsidy structures on the weakest areas

Most big investors, be they European or not, say subsidy funding does not come very high on their list of priorities. There are plain reasons for this – first, they have more important things to worry about; and second, they are less likely to be eligible for money than smaller companies.

Nevertheless, a basic understanding of how EU subsidies work can be a tool of competitive advantage.

Any company that is represented in an EU member state could be entitled to funds in some way. Money is distributed along a chain from European Commission to member state government to local authority or development agency to successful funding applicant.

"Explicit funding to a company is actually fairly rare," says Tim McNamara, head of regional relations at the European Commission office in London. Only "social funding", which could pay an employer to retrain staff that are under threat of redundancy, is allotted in this way. More normally, European funds would be used to enhance the attractiveness of an area – building roads to a new proposed site, for example, or bringing derelict industrial sites back into use.

The EU spends about one-third of its budget, or around Ecu30bn (£20bn) annually at latest estimates, on the four structural funds that form the backbone of subsidies to regions or sectors that are deemed to be in difficulty. Two of these funds – the European Regional Development Fund and the European Social Fund – straddle regions and industries.

A large-scale reform of the structural funds is currently under way. The main aim of the reassessment is to focus a larger proportion of the funds on fewer areas that are in the greatest need. At present, 51 per cent of the EU's population is in regions that receive structural funding. This is projected to fall to as low as 35 per cent.

Peter Marsh, who co-ordinates European funding for one of the poorest London boroughs, Harringey, is concerned that some of the continent's weakest areas will lose subsidies altogether if the review criteria are not adequately framed to respond to unemployment and deprivation. "Structural funding is crucial for the regeneration of this area," he says.

All the structural funds can be granted on the grounds of any one of three objectives – Objective 1, the top priority, aims to redevelop regions that are seriously lagging behind the EU average.

Even after priorities alter, areas of the UK, Greece, Italy, Spain, Portugal and eastern Germany will continue to receive significant Objective 1 money. Ireland loses its Objective 1 status in the reform.

There are other initiatives that fall outside these core structures. The European Investment Fund, for example, takes equity stakes of around Ecu2m each in small businesses, normally via venture capital funds. The EIF also offers leveraged finance to small businesses.

Generally, there is a move at EU level to concentrate assistance in the weakest areas of the Union. This is plain in the way it is reshaping the structural funds. It is also evident in the alignment that the EU is trying to achieve with domestic regional funding. In the UK, for example, the EU is keen that regional overlap of funding be maximised when the government reassesses its programme of regional selective assistance. "The Commission felt regional aid was being targeted too widely and being spread too thinly," says Mr McNamara of the EC. Now it is doing all it can to concentrate efforts on areas that are in extreme need.

CASE STUDY
STAUBLI

Swiss-made for a carefully measured approach

An engineering contractor turned pan-European 'motion controller' has spent the last century on a steady expansion path

For a carefully conceived attitude to setting up business locations across Europe, it is hard to beat the strategy of Stäubli, a privately owned Swiss company which is a world leader in specialised textile manufacturing systems as well as industrial robots. From its creation 106 years ago as an engineering contractor in Horgen, near Zurich, the company has edged out into a number of other technical fields, with large manufacturing centres in Germany, Italy and France.

With only 1 per cent of the company's SFr760m annual sales in Switzerland, Anthony Stäubli, the company's chief executive and the grandson of the founder, explains that from the outset Stäubli has had an international approach to doing business. It has expanded partly through taking advantage of market opportunities in specific countries, and partly through shifting its basic engineering expertise into new areas.

"We are specialists in motion control," says Mr. Stäubli. "It's possible to see links between our original products of weaving systems and a number of other equipment fields."

Just over half Stäubli's 2,500 employees are in two plants in France. It also has plants in Germany, Italy and Brazil, as well as one in Switzerland where it has 350 workers. Some 70 per cent of the company's sales come from specialised weaving system attachments based around "dobbies" – highly intricate devices that create the pattern in cloth. Stäubli is a world leader in electronically controlled Jacquard systems which do this job at extremely high speeds.

With the textile equipment industry prone to large swings in capital investment – the industry is now moving into a steep downturn due to cuts in investment in Asian countries which are the world's biggest customers for textile systems – Stäubli saw the need in the 1950s to move into a "second leg". This was built around specialised hydraulic and pneumatic couplings for fields as diverse as space rockets and plastics moulding machinery.

Stäubli started production of these devices in one of its French plants – in Faverges – in 1956. Today specialised couplings account for about a fifth of Stäubli's sales. The company made its big step into Germany in 1969 when it took over another private manufacturing business Bayreuth, which now employs 300 and is a key site for dobby manufacturing. This summer, the company moved further into the country when it took over a small business in the former East Germany which is a maker of carpet weaving machines.

'We specialise in applications where the customer needs high degrees of accuracy'

The next milestone following the foray into Germany was in 1989 when Stäubli paid Westinghouse of the US an undisclosed sum for Unimation, at one time the world's biggest robot maker. Started in 1962 by Joe Engelberger, a US entrepreneur, Unimation was bought by Westinghouse in the 1980s but ran into financial difficulties due to mounting competition particularly from Japanese robot suppliers.

A five-year development programme followed to modify Unimation's existing Puma electrically controlled robots to new applications. Stäubli also found it more convenient to base its robot manufacturing in its existing plant in Faverges, closing Unimation's European manufacturing headquarters in Telford in the UK, which today has been relegated to a sales and engineering outpost. "There are many bigger robot suppliers than us but we specialise in applications where the customer needs high degrees of accuracy in areas such as assembly of small parts," says Mr Stäubli.

With robots accounting for about 8 per cent of Stäubli's sales, the company moved into a "fourth leg" in 1993 through buying Tec-Sem, a Swiss manufacturer of automation equipment for the semiconductor industry. Mr Stäubli hints that this might have been a diversification too far. "There are some synergies between this field and robotics," he says, "but not as many as we thought." With the downturn in the world semiconductor industry hitting demand for the types of wafer-handling systems that Tec-Sem makes, Mr Stäubli says the company is considering the future of this part of the company carefully.

Peter Marsh

NORTH OF ENGLAND by Sheila Jones

Regeneration is still ticking over nicely

Despite the high-profile withdrawal of some overseas investors from the north of England, the area's development bodies insist the process of revival has not stalled


Nissan's Sunderland plant has evolved from a suckler into a provider for the region

When Siemens, the German electronics group, decided this year to end semiconductor manufacture in the north-east of England, questions were asked about whether the region had become over-dependent on inward investment and vulnerable to corporate decisions made outside the UK.

Regeneration agencies argue that a handful of high profile closures, mainly as a result of a downturn in the global chip market, did not mean all inward investment was going wrong. Hundreds of foreign-owned companies continued to "tick over nicely", says John Bridge, chief executive of the Northern Development Company.

There has been no let-up in the promotion of the UK as a business location. In contrast to the particular problems at companies such as Siemens, the pace of inward investment has accelerated this year after a record number of investments last year.

Andrew Fraser, chief executive of the Invest in Britain bureau, says the UK continues to dominate in Europe on the main factors that influence investment decisions: access to markets and supplies, competitive taxation rates and a business-friendly location. While there are fewer, large investments, the number of smaller and medium-sized projects is rising.

Competition is increasing from lower-cost locations, and jobs have been lost in industries including textiles and pharmaceuticals to locations in eastern Europe and South America. But the UK's communications infrastructure, among other factors, can help to bolster its appeal, says Melanie Lansbury, senior economist at Business Strategies, the London-based consultancy. "We have some of the lowest labour costs in the European Union, apart from Greece, but the UK has the infrastructure too."

Investment agencies, such as Inward in the north-west of England, believe that the creation of the new regional development agencies will help the English regions compete more effectively for inward investment by providing a more co-ordinated response to potential investors. However, there is still concern that the regions may lose out because of the lack of central funding within the RDAs, unlike the funding regimes in Scotland and Wales. The English regions must refer to government departments on larger investment packages, and projects can be delayed in the process.

While most companies looking for a European site say the incentive regime and labour costs are not always important factors, they can be decisive if everything else, such as access to markets, a site and labour, is in place.

Inward argues that the north-west, along with other regions, can be "outbid" on financial packages elsewhere in Europe or beaten by more attractive tax regimes in countries such as Ireland. It adds, however, that the decision by Ford, the US motor company, to upgrade its Halewood plant on Merseyside, is a sign of the region's reputation as a quality manufacturing region with good transport links, infrastructure and a large labour force.

Views are mixed on whether the UK's decision not to enter the European single currency in the first wave will affect the way the country is viewed as a business location. Some business leaders argue that their ability to trade in euros, whether in or out of monetary union, will make no practical difference to their position in Europe. However, there is concern among some large foreign-owned investors that the UK will be seen as peripheral in Europe until it joins the single currency or sets a firm date for joining.

While the Siemens and other high-profile closures may not be part of a trend, the regions are eager to ensure that future investments become embedded in the UK. A recent shift towards more value-added investment should help to underpin that ambition. "There is an important shift throughout the country up the value chain," says Mr Fraser of Invest in Britain. Companies are increasingly investing in knowledge-based employment. "It is the access to Britain's science and expertise that people are now looking for. What's exciting about this new generation of investment is the extent to which they are focusing on research and development."

Last year, a record 618 inward investment projects were completed in the UK, creating or safeguarding 125,000 jobs. Korean investment has evaporated following the Asian financial crisis, but Japanese interest is holding up and the "fundamental investment climate is extraordinarily buoyant".

For a Japanese company such as Nissan, the car maker, its long-term ambitions in the European market are more important than factors such as the downturn in Asia. The company picked Sunderland in the north-east of England as its main European factory in 1984 because the UK was its biggest market and gave it access to the rest of Europe and its administrative offices in Amsterdam, says Stewart McKee, corporate communications manager.

Nissan sells 100,000 vehicles a year in the UK and 500,000 across Europe. The company has become embedded in the region by shifting from being a "screwdriver" assembly plant in the early days to becoming a centre of design, development, testing and production. It has invested in training from day one, producing a car plant with the highest productivity in Europe.

"It has achieved its own critical mass as a business. It is now a provider not a suckler," says Mr McKee.

The availability of grants was "way down the list of priorities", he says, and labour costs were not an issue, because they account for only 1 per cent of the cost of building a car. But the local infrastructure and the labour force were important. Nissan is not about to leave the region. "We have everything we need at the plant for the European market. It is driven by sales and the European car market is still relatively buoyant."

CASE STUDY
DURR

Practised painter favours the close-up approach

The world's leading maker of automotive paint systems prides itself on siting its staff local to their job, whether that should be in domestic production plants or in its foreign locations

It is a truism throughout industry that companies need to be close to their customers.

But few companies follow this maxim more closely than Dürr, the German company that is the world's largest maker of paint systems for car plants.

Set up in 1895 as a tinsmith, the company has expanded annual sales to a volume of DM1.8bn last year, with about 20 main locations, of which half are in Europe.

With only 10 per cent of its 3,600 employees in production jobs, the company is in many ways closer to an engineering service provider than a manufacturer.

"Roughly half our employees are in engineering or sales jobs where we are basically acting as technical consultants to the customers in the big car companies," says Hans Dieter Pötsch, Dürr's chairman.

He reckons that at any one time about 1,000 of his employees are likely to be found on the premises of a car plant – either discussing a new paint system or helping to operate an existing one – rather than sitting in their own office or workshop.

Dürr's evolution underlines the importance for many industrial suppliers of a strategy in which service disciplines are just as important as manufacturing prowess.

Equally, the places where the company's key managers and engineers are situated is driven as much by the needs of customers as Dürr's own convenience.


Local man: Hans Dieter Pötsch

The company set up its first non-German subsidiary (in Brazil) as recently as 1964. A wave of foreign expansion then followed. While Stuttgart-based Dürr still has 1,400 employees in Germany (of which 70 per cent are in technical jobs), others are scattered around the rest of Europe – with 300 in France, roughly 200 each in Spain, Italy and the UK, and about 100 each in Austria and Poland.

Reflecting the 35 per cent or so of Dürr's sales outside Europe, the company also has 500 employees in the US as well as smaller groups in India and China.

With most of Dürr's activities built around large automated painting shops for car companies, the company has a flexible manufacturing structure.

"We make our own components only when we feel we have a technical edge – for instance we make some specialised ovens [used in parts of paint spraying systems]," says Mr Pötsch. "Otherwise we subcontract the manufacturing to other businesses that can do the job more cheaply while we concentrate on the systems integration."

In recent years the company has ventured into other activities such as cleaning equipment for broad factory applications and general automation systems – which together account for about 20 per cent of Dürr's total sales.

Part of Mr Pötsch's job – before taking the top post at Dürr in 1995, he worked at BMW and Trumpf, the world's largest maker of laser cutting tools – is to create lines of communication throughout the group to enable people to swap ideas.

"It's important to go across departmental barriers and talk to each other so that an engineer in one part of the company can learn from someone else doing a different job," he says.

As part of the idea of fitting in with customer requirements, Dürr spreads its engineers around its different locations in Europe to tap good suggestions from the car companies for which it works and to put them into effect.

It has, for example, come up with novel paint spraying robots which can intervene on paint-coating lines to apply paint in small production sequences of cars, in between long production runs which use the same colour. This is in case a vehicle distributor suddenly telephones the car plant to say, for instance, that it needs two cars coloured yellow to suit a specific customer somewhere in the world.

Peter Marsh

GREECE by Kerin Hope

Reconstruction project

As the primary beneficiary of EU money, the country is now managing to complete an array of key infrastructure projects, attracting vital international investment in the process

For passers-by in central Athens, the sight of a brand-new escalator dangling from a crane is not just an arresting image.

It signals that the long-awaited extension to the Greek capital's underground railway is nearing completion.

The Dr700bn metro extension, due to open in 2000, was the first of several important infrastructure works conceived over 30 years ago to be launched. Before EU grants became available to boost the economies of poorer member states, few Greek public works projects advanced beyond the study stage.

The EU's current structural aid package for Greece contains more than Ecu10bn in grants for modernising infrastructure. Projects under way include an international airport for Athens; a Dr200bn bridge across the Corinth Gulf; the Dr750bn Egnatia highway across northern Greece; and the Dr450bn Attica highway, a ring road for the Greater Athens area which will also link the new airport with the city.

International construction companies are managing most big projects with Greek companies as sub-contractors. The local companies, mostly family controlled concerns with limited capital resources, are having to restructure in order to participate. They are also learning to live with a sharp fall in margins.

"It's been a rough ride for many local contractors," says Ariana Kourtali, construction analyst at Alpha Brokerage in Athens. "They were used to big margins and few quality controls when they worked on government contracts. Now there are more contracts to be competed for, but they have to learn to operate differently."

Three big projects – the airport, bridge and Attica highway – are being constructed on a build-operate-transfer (BOT) basis, with financing from both public and private sources. The mix includes EU grants and soft loans from the European Investment Bank, equity participations by private contractors, commercial loan packages and allocations from the government's investment budget.

Germany's Hochtief group leads an international consortium building the new airport at Spata east of Athens, which is due to open early in 2001 with the aim of becoming a regional hub for south-east Europe. The consortium holds a 45 per cent stake in the Athens Airport Company, and has a concession to run the airport for 30 years. The remaining 55 per cent is held by the Greek state.

The Greek government is providing the airport site and financing out of revenues from the Spatosimo, a special tax paid by passengers leaving Greek airports.

The consortium provided equity, while the EIB has put up a loan. EU grants brought in extra funds, with the remainder coming from a commercial loan package.

"The big projects are an unprecedented combination of private and public sector financing. We've had delays and arguments," says an economy ministry official. "But we've established a method that can go on being applied, for example for building facilities needed for the 2004 Olympic Games in Athens."

Many medium-sized Greek contractors have opted to bid for smaller works co-financed entirely by the EU and the public investment budget: harbour modernisation, new railway tunnels and runway extensions at island airports.

Big construction companies, however, have sought equity participations in some of the consortia handling BOT projects.

"It's important to keep a balance on your order-book between public and private sector projects. But if you want to grow, you can't afford not to be involved in the biggest projects of all," says Loukas Kyriacopoulos of Helleniki Technodomiki, one of Greece's five leading contractors, which is participating in the bridge and Attica highway projects.

To improve quality and reduce delays, especially on roadbuilding projects, contractors are being encouraged to join forces.

For example, the size of sections offered for tender has increased from 5km to 20km on parts of the Egnatia highway, which will run 780km across rugged terrain to link the Adriatic coast with the Greek-Turkish border in Thrace. As a result, three or four companies are putting in joint bids.

The construction industry is expected to consolidate rapidly in the next two or three years. "Contractors will have to overcome their current reservations about takeovers and mergers, because the next round of projects will require a much bigger pool of resources," says Ms Kourtali.

Helleniki Technodomiki has shown the way forward by agreeing a merger with Volos Technical Company, a specialist bridge builder which is also part of the Corinth Gulf bridge consortium.

Helleniki raised Dr15bn through a rights issue, which included a private placement with international investors, to acquire a 50 per cent stake in Volos Technical held by one of its founding partners. Volos shareholders will acquire 31 per cent of Helleniki.

Mr Kyriacopoulos says that Helleniki "will be in a strong position as a result of the merger" when bidding opens next year for $550m in BOT projects for the Athens Olympics. The biggest prize will be a $103m contract to build the Olympic village – due to become a private housing complex after the Games – on a wooded site on Mount Parnes near the capital.

PORTUGAL by Peter Wise

Catchphrase of cut-price quality attracts new fans

Emu has enhanced the economic appeal of an advanced location that is still cheap by European standards

In the trade-off between quality and cost that every foreign investment decision involves, Portugal has made substantial improvements in the calibre of what it has to offer without an equivalent increase in the price.

The single biggest change has been brought about by the country's successful effort to adopt the single European currency. This should guarantee a sound economic environment of low inflation and interest-rate stability – benefits not traditionally associated with Portugal – and it virtually eliminates exchange-rate risks.

Participating in the euro is a particularly important advantage in relation to East Europe, one of Portugal's main competitors for inward investment. Poland, the Czech Republic and Hungary can offer lower wages, a better qualified workforce and locations that are much closer to the big north European markets. But the risks are greater.

"Political and financial risks, including the possibility of rising inflation, are considerably higher in east Europe than in countries such as Portugal that will form part of the euro-zone," says Jan Scheers, a partner with Plant Location International, a Brussels-based unit of consultants PricewaterhouseCoopers (PwC).

"Companies exporting from Portugal also benefit from guaranteed free access to European Union markets," he says. "Although East European countries have trade agreements with the EU, investors based in those countries run the risk of coming up against restrictions and limitations on trade with the biggest European markets."

Protection from risk was one of the principal benefits that António Guterres, the prime minister, underlined when Portugal officially qualified in March to participate in European economic and monetary union.

"We have proved we can do it," he said. "When the European Union begins expanding eastwards, being part of the euro will provide Portugal with the crucial comparative advantage of credibility. Our economy has become much more reliable for foreign investors than it was before."

Portugal has also been catching up with other peripheral, lower-cost competitors within the EU. Ireland, seen as another of Portugal's main rivals as a business location, has in some ways become a victim of its own success, according to Mr Scheers.

The large number of investment projects attracted to Ireland in recent years has led to a shortage of skilled workers in some areas and corporate tax rates have begun to move up from the extremely low levels that helped draw foreign companies, he says.

Meanwhile, improvements in Portugal's education system and EU-financed investment in professional training have helped increase the availability of qualified workers with an adequate level of technical expertise. However, wage costs remain by far the lowest in the euro-zone.

"Portugal faces competition from some other regions, particularly east Europe, in regard to some price factors, such as wage costs," says Guilherme Costa, head of ICEP, Portugal's state institute for investment, trade and tourism.

"But when it comes to unit production costs, we have a clear advantage. The levels of productivity that can be attained with the technologically sophisticated equipment and modern management methods available in Portugal are equal to those in more advanced EU countries, where costs are much higher."

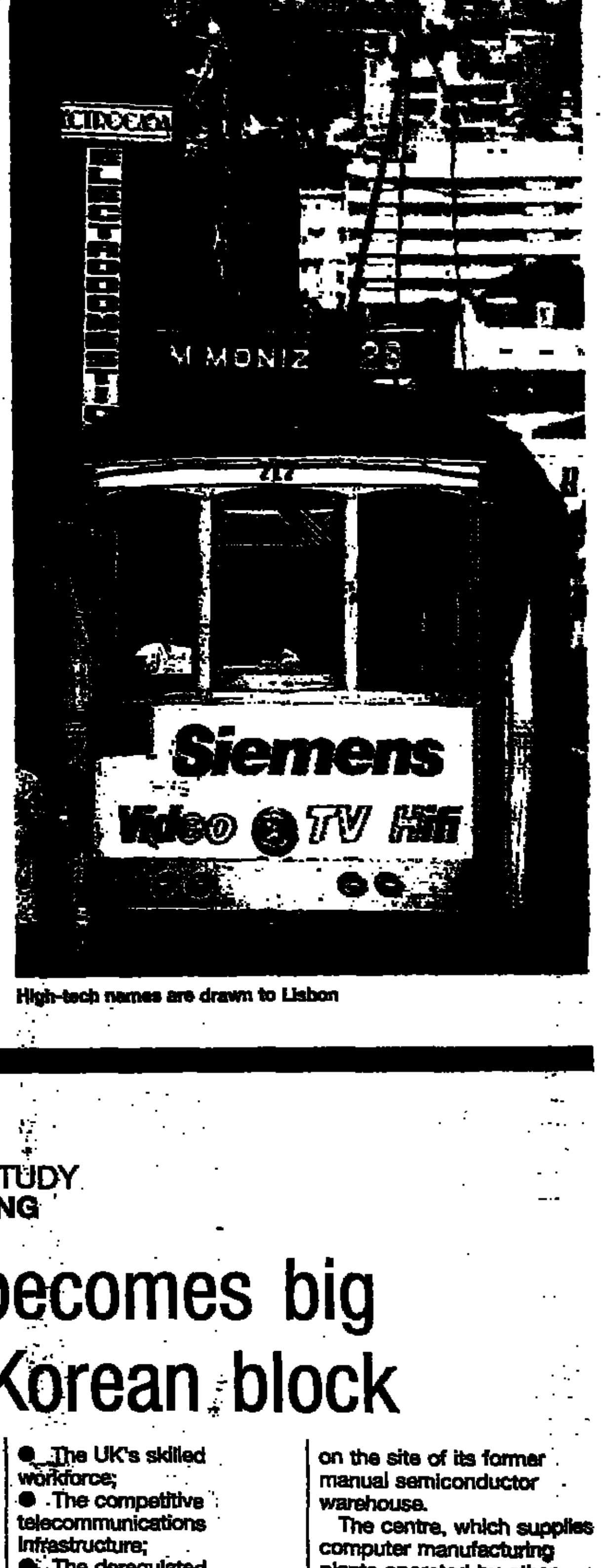
The quality of the workforce has been an important motive for some of the biggest foreign investments made in Portugal. In 1996, Siemens, the German electronics and electrical engineering group, chose Portugal from 26 competing countries as the site for a Es60bn ($380m) memory chip plant.

Ford and Volkswagen also opted for Portugal to set up AutoEuropa, a $2.54bn joint venture to produce "people carrier" vehicles. The plant was inaugurated in 1995.

"Portugal was competing strongly with the UK, France and Spain for the plant," says Ralph Rosignolo, AutoEuropa's executive director.

"In the end, the combination of government incentives, a skilled, cost-effective workforce and a long-term commitment to the automotive industry were the decisive factors for choosing Portugal."

Although Portugal's labour laws look rigid on paper, they are relatively flexible in practice, says John Duggan, a Lisbon-based tax partner with PwC. A bigger obstacle to efficient business practices is bureaucracy, he says. In spite of recent improvements, red tape remains a cause of delay and frustration for many foreign investors.



High-tech names are drawn to Lisbon

CASE STUDY
SAMSUNG

London becomes big chip off Korean block

Things have not gone smoothly for Samsung, the Korean electronics giant, since it decided in 1995 to relocate its European headquarters from Frankfurt to London.

In the three years since the decision was taken, the Korean economy has been hit by the financial turmoil spreading through Asia, and there has been a worldwide downturn in semiconductor prices, hurting the group's margins.

These difficulties have forced the group to postpone plans for a 100,000 square foot new building at its European headquarters, sited in Brentford, a west London suburb near Heathrow airport.

However, the changing economic outlook does not undermine Samsung's reasons for the shift to London, which coincided with the official opening by the Queen of its £450m factory at Billingham, Cleveland, which makes microwave ovens and computer monitors.

Samsung says it moved its HQ to London because of:

- The importance to the group of its UK activities, which include Samsung electronics, Samsung Corporation and Samsung Semiconductors as well as the Cleveland plant;
- London's pre-eminence as a financial centre;
- Good transport links between the UK and Korea, with a key international airport just down the road at Heathrow;
- The status of English as the pre-eminent international business language;
- The UK's skilled workforce;
- The competitive telecommunications infrastructure;
- The deregulated business environment, which permits greater flexibility of operations than in many continental European countries.

The existence of a Korean community of more than 10,000 people, concentrated in the borough of Kingston-upon Thames, in south-west London, also helped to make the company feel more at home.

Despite difficulties at home, Samsung has underlined its commitment to London

Samsung worked closely with London First Centre, the inward investment agency for the capital, in choosing precisely where to locate – it eventually chose the 8.9 acre Trico site on the Great West Road, well known to many Londoners.

In fact, officials say that Samsung was the first company to inquire about relocation to London when the agency, funded jointly by the government, local authorities and business, opened its doors in 1994.

In spite of the difficulties in its home market, Samsung underlined its commitment to London in March, when it decided to locate a $2m automated logistics centre on the site of its former manual semiconductor warehouse.

The centre, which supplies computer manufacturing plants operated by other companies in Scotland and Ireland, handles a range of products flowing in from Korea and the US, including integrated circuits, multimedia devices and high performance Alpha microprocessors.

Ken Jones, sales director of Samsung Semiconductors Europe, said the plant had to be automated because the volume of products being shipped manually had quadrupled, although its value had hardly changed because of falling prices.

The plant needed to be in London because of the proximity of Heathrow, which allows easy transhipment of both goods and people arriving from Seoul, and the ease of transport links to Ireland and Scotland.

"We needed to be closer to the big personal computer companies which represent 50 per cent of our total European turnover," says Mr Jones. Samsung Semiconductor has a second headquarters in Frankfurt which supplies smaller PC companies in the rest of Europe.

The London centre, which acts as a hub for smaller warehouses close to the computer plants, allows customers to place orders through an electronic data interchange system as little as two hours before the goods are needed on the production line.

Kevin Brown

Mastering MARKETING

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How is information priced?

Summary

The market for information is huge. In the early 1990s, professional fees for information products and services stood at $375bn a year in the US alone. Yet a lot of the most expensive information is also the least accurate – a forecast of the Indonesian car market is likely to cost more but be less reliable than statistics about the current UK car market. This is because when information is of high quality, buyers are indifferent as to the source, so companies selling it are forced to compete on price. But where knowledge is less certain, buyers see sellers as offering complementary products and competition is muted. Here **Philip Parker** discusses the nature of information markets and the implications for competitive strategy.

Everyone seems to be talking about the "information age" and how knowledge is changing the nature of traditional products and services. According to an article in Business Week (November 7 1994), for example, "with the dawn of the Information Economy, the traditional split [between goods and services] does not make sense."

But what exactly are information products and services? And do traditional competitive strategies apply to this industry? Recent research provides rather counter-intuitive answers: companies selling low-quality information can make the highest profits, whereas high-quality information sellers struggle to survive. For the low-quality sellers, textbook competitive strategy is simply inapplicable.

To clarify this conclusion, I shall first define what is meant by information products and services, then describe the structure of competition in information markets and summarise some case studies.

What is information?

In what follows, it is appropriate to think of a consumer who buys information to make a decision. Knowledge or information products take a variety of forms: industry reports, consulting services, educational programmes and professional opinions given by medical, engineering, accounting, financial and legal professionals among others.

The information services industry also includes database services such as Dun & Bradstreet *Business Information Reports and IMS* International Sales Territory Reports and Consumer Reports. A doctor's recommendation to a patient to follow a particular treatment, like a strategy professor's recommendation to a company to enter a new market, are both information products.

By the early 1990s, the US Department of Commerce estimated that professional fees for information-orientated products and services reached over $375bn annually in the US alone. This multi-billion-dollar industry exists for one simple reason: information asymmetries. Consumers are uncertain and lack knowledge. They then shop for information suppliers who know more than they do and a transaction takes place. Knowledge, as it were, is tradable.

The structure of competition

Who makes the most money in information markets? Figure 1 summarises the implications of a game-theoretic model proposed by Miklos Sarvary of Stanford University.

There are two knowledge-sellers in the model. Two perceptional dimensions distinguish the two sellers: (1) the sellers' perspectives and (2) the quality of the information they provide.

Let us define these terms. What is a "perspective"? It is useful to think of two doctors: one is a homeopath, the other is a traditional general practitioner. A patient with a headache might visit the traditional doctor and explain his problem, and the

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Talking telephone numbers: estimates made in the 1980s for the size of the 1990 US mobile phone market ranged from 0.43m to 7m; in fact, it was 5.2m

doctor, after examination, might feel that the patient is stressed and should take a few days off work.

The same patient might also visit the homeopath and explain his predicament, and the homeopath might also recommend that the patient take a few days off work. Despite the two doctors giving exactly the same advice, they are nevertheless seen as coming from two fundamentally different schools of thought. Perspective is not "what you know or say" but rather "your perceived methodology".

One key factor in describing competition in knowledge markets is the correlation in perspectives across sellers. Two homeopaths have similar perspectives – that is, their knowledge is perceived to be correlated. A homeopath and a traditional doctor have different perspectives – their knowledge is uncorrelated.

What is "quality"? Quality is related to the reliability or accuracy of the information being sold. High-quality information is extremely accurate. Low-quality information is inaccurate.

Where does quality come from? It may come from the competence of the seller. In competitive markets, competence is unlikely to drive long-run quality since a company (for example, a consulting company) can always hire competent employees, or fire incompetent ones.

A more interesting source of quality is the environment. Consider a company selling forecasts of car demand. *A five-year forecast for China will be* less accurate and less reliable than a five-year forecast for the UK.

Similarly, consulting companies are more likely to provide low-quality forecasts for new product categories not because they are less competent than managers or other people but because the market for new products is highly uncertain.

Table 1 illustrates this for cellular telephones in the US. The forecasts were made in the mid 1980s for the year 1990 and beyond. The estimates vary from 430,000 to 40m subscribers. The actual size of the market by 1990 was 5.2m subscribers and no forecaster came close to this number.

The prestigious companies that made these forecasts were no more incompetent than the others; they simply used different methodologies with different assumptions. The accuracy, reliability and quality of the information provided was nonetheless low.

Who makes money in knowledge markets?

Figure 1 reveals possible outcomes for two report-sellers facing a manager who might be willing to buy decision-making information. Consider the case when both sellers offer highly accurate information (such as industry statistics) and both come from exactly the same "school of thought" (both sellers are twins raised by the same parents and both graduated from the same university, where they were roommates).

In this situation the manager will purchase from only one of the two sellers. The two will fiercely compete for this market. Prices will fall towards marginal costs and neither will be very profitable. Why? Because the two are selling perfect substitutes. *Profits are low for high-quality information-sellers.*

Now consider the case where the consumer is making a $100m investment decision in Indonesia. The market is highly uncertain. Forecasts will surely be inaccurate given the high levels of uncertainty (look again at the cellular telephone forecasts in Table 1).

One of the information-sellers has developed a complicated econometric model of the industry and *is selling demand forecasts in the form of an industry report.* The other company is also selling demand forecasts in a report but it has a socio-political perspective: it emphasises that it forecasts demand using a Delphi procedure, interviewing

Figure 1

The structure of information "competition"

	Different perspectives (sellers come from different "schools of thought")	Same perspective (sellers come from same "school of thought")
Low quality (high uncertainty; low reliability; low information accuracy)	Highest profits • Consumers buy from both sellers • Competitors sell complements • Low price competition	Moderate profits 1–2 reports purchased
High quality (high certainty; high reliability; high information accuracy)	Moderate profits 1–2 reports purchased	Lowest profits • Consumers buy from one seller • Competitors sell substitutes • Severe price competition

unsung masters of marketing

The rest is spent on management and training.

To illustrate how this level of market access can be leveraged we refer to a case from the mid 1980s, of a managing partner in a global consulting firm who asked a young marketing analyst to undertake a competitive review. Weeks later the analyst returned with profiles generated from press coverage, copies of bids and discussions with recent hires from the target competitors. In summary, the firm's competitors were global, growing fast, successful in winning new work, recruiting heavily and had many blue chip clients. But this was not news – the partner knew that those were the very characteristics that had made these firms his competitors.

To him, a competitor review should not describe competitors today but rather competitors' strategies. These, he argued, could be revealed by listening and watching carefully. He had wanted the analyst to leverage the thousands of hours a week that people were spending outside the firm.

The partner subsequently sent a message that he expected people to find out as much as possible about four or five specific competitors over the next two months. They were to keep this in mind when talking to clients and non-clients in airport lounges, on flights and at industry meetings. He reasoned that many weak signals might, when pulled together, reveal an emergent strategy.

His experiment worked – partners started to listen much more actively to the market and were encouraged to share information about market events that could not yet be interpreted as trends. The partner exploited the latent resource all firms have by sensitising people to the process of continually refining their own model of the market.

A global superleague?

One of the biggest drivers of growth among the larger PSFs has been the globalisation of big business. It has created unprecedented demand for the delivery of a broad range of services worldwide. The initial response of dispatching staff on an ad hoc basis was inadequate, as was the establishment of multiple locations populated mainly by American and British professionals.

Globalisation has required the PSFs to invest on a scale not contemplated in their earlier economic models. This has resulted in consolidation. The "Big Eight" accountants became the "Big Six" and then the "Big Five". In the world of consulting, what we know as Gemini today was created by bringing together the MAC Group, United Research and CAP Gemini Sogeti. In law, however, most fees are generated from work based on a domestic code. Although some consolidation has taken place within national markets, combinations such as that which led to the creation of Clifford Chance have generally been resisted.

Today there are five broadly based accountancy practices, about ten management consultancies and at most ten law firms that can credibly claim to be global. As the multidisciplinary practice takes hold, we may see further consolidation towards a "premier league" of perhaps a dozen global firms offering a combination of audit, tax, legal, strategic and information systems consulting. The challenges of holding such firms together will, given their diverse antecedents, be tremendous. Competing domestic and global pressures will reduce the independence of national partnerships (which have very fragmented client bases). This, we predict, will precipitate a further restructuring.

The main constraint is that a firm cannot be all things to all people. The market shakeout will therefore result in a superleague of high-powered firms which combine economies of scale and scope with a tight focus on service lines offered and market sectors served. The challenge facing PSFs now is how to adapt to face this future. This is likely to involve three classic tools of marketing strategy: segmentation, organisational alignment, and branding.

Segmentation

Sector or industry is the most common factor used by PSFs to segment the marketplace. This is in response to the increasing complexity of client business and to the fact that clients prize sector knowledge. However, aligning the practice has been problematic.

In the past, with agendas dominated by the interests of the national partnership, large PSFs felt obliged to have representation across all industry sectors. This, it was felt, would boost credibility. This philosophy has served the firms well so far but may be incompatible with the requirements of the global PSF.

Other more creative bases have been used with varying degrees of success. Dividing the market by company ownership, size and growth rate has proved a worthwhile predictor of the value a PSF can hope to add. So also is management's attitude, a characteristic exploited by Arthur Andersen in the mid 1980s.

Andersen's research showed that it was seen as (among other things) innovative, creative and efficient. However, it was also seen as pushy, aggressive and arrogant. Andersen decided that these negatives should not be hidden: they were a valid part of its personality that might be valued by the younger, more entrepreneurial, high-growth companies it really wanted to do business with. Subsequent research confirmed that such companies would associate such values with dynamism, confidence and capability.

Organisational alignment

The traditional PSF was structured along service lines (for example, audit, tax, asset valuation). The realignment to the market has been evolutionary. At first firms created special interest groups (SIGs) comprised of professionals from each division. SIGs were responsible for targeting companies involved in specific sectors. SIGs initially focused on publishing newsletters, presenting seminars on topical subjects and (alas) producing brochures.

The next phase was to reorganise within divisions to reflect the firm's sectoral strengths and ambitions. The divisions were subdivided into groups dealing with highly specific sectors (for example, financial services). This forced individuals to specialise – to give up clients outside the sector. The new organisation was a matrix defined by the divisional (for example, tax) and sectoral axes. The dominant axis was still the division and this reduced the impact of the reorientation.

The most recent phase has been the empowerment of the matrix's sectoral axis, supported by increasing investment in infrastructure and "knowledge management" to ensure that organisational learning is exploited efficiently.

This last phase is clearly required by PSFs with global ambitions. Critical mass is no longer an issue – on a global basis these larger firms will have a sufficiently strong practice to serve the global players in the main sectors. As the economic demands of national partnership are unlikely to optimise the investments in products, services and people required to serve global clients, many PSFs serious about being global have begun the difficult transition to financial integration of their practices.

Branding

Although measuring brand value has proved difficult and controversial, it is undeniable that a brand that clearly positions a product, service, or firm in the minds of the target audience is a significant source of advantage. Volvo, Coca-Cola, Heinz, Levi's, Marlboro, McDonald's and Nike are examples of brands that are clearly positioned relative to their competitors.

Owing mainly to the intangibility of the services provided and the difficulty clients have in comparing offers in advance of delivery, PSFs have generally found it hard to achieve distinctive brand positioning. An important exception is McKinsey, which owes its premier position in the market to the foresight of its founders – they established a new category and, using law firms as a model, taught corporate America what management consulting was all about. The rest became "me toos".

In accounting, the Big Five as a group are a megabrand clearly distinguished from all others. But within the Big Five, despite extensive advertising, the market finds it hard to distinguish between firms. One view is that efforts to create clearly positioned brands have failed because of the diversity of services offered and sectors served. As long as firms continue to serve many distinct segments, it is hard to fashion a positioning with meaning for buyers in these disparate markets.

In contrast, value-based consultants Marakon, who advise companies like Coca Cola, Dow Chemical, Nordstrom, Boots and Lloyds TSB, have avoided this trap by staying focused on their expertise; they are only known for one thing. This strategy works: last year Marakon's revenues per consultant were tied with market leader McKinsey.

Despite the difficulty of establishing a differential positioning, brands are already crucial in PSFs (as in other services) for communicating quality and credibility. Clients are more likely to buy services from a well-known firm and will pay a premium to do so. Also, the top firms' brand names are crucial in recruitment: MBA students will almost invariably join the most prestigious consultancy if they have a choice.

When the next wave of restructuring is complete, brands may be even more important in signalling a firm's capabilities. The major PSF names may become umbrella brands, with increasing emphasis on subbrands serving distinct sectors. The challenge will be to ensure that the subbrands carry some core values that connote the umbrella brand.

However great these challenges, we must not underestimate the ability of PSFs to overcome them. In the words of Chicago Tribune journalists *James O'Shea and Charles Madigan, authors of a* recent warts-and-all book about the top consulting firms, "The greatest attribute of the American management consulting industry is its ability to market itself."

Further reading

Maister, D.H. (1997) *True Professionalism: The Courage to Care About Your People, Your Clients, and Your Career*, New York: Simon & Schuster.

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The future winners

The winners in the new global market will be the PSFs that have been most able to leverage their market knowledge and strategic marketing expertise. They will have defined distinct and valuable positions in the minds of buyers in their target markets. They will have overcome deeply held prejudices about marketing's value and have addressed the three critical priorities: segmentation, organisational alignment and branding.

This, then, is the paradox about PSFs and marketing. They are still at an early stage in learning how to do some aspects of functional marketing, such as brand communications, that have long been associated with fast-moving consumer goods powerhouses *such as Procter & Gamble*, Mars and Nestlé. At the same time they are past masters at marketing in the broader sense – that is, in terms of closeness to customers, competitive orientation and responsiveness to market signals.

Contents

Cover illustration: Darren Raven

Professional service firms:

unsung masters of marketing

Patrick Barwise is professor of management and marketing at London Business School, where he is also director of the Centre for Marketing and chairman of the Future Media Research Programme.

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Summary

The world's leading professional service firms – such as PricewaterhouseCoopers, McKinsey and Clifford Chance – are highly profitable, growing fast and have powerful brands. So what part has marketing played in their success? According to **Sean Meehan** and **Patrick Barwise**, such firms have benefited less from the efforts of their marketing departments than from a pervasive culture of customer focus. These businesses are highly responsive to their customers and acutely sensitive to the market. The authors also discuss the likely impact of globalisation on the main players in the professional service market.

The top accounting firms, law firms and management consultancies are among the best-managed businesses in the world. Examples of such professional service firms (PSFs) are the "Big Five" accountants, law firms such as Clifford Chance, Baker McKenzie and Skadden Arps and consulting firms such as McKinsey, Bain and the Boston Consulting Group. At the top end of their respective markets, these businesses are global, fast-growing and very profitable. Within the business community, they have built powerful brands based on strength in depth across many industry sectors and technical specialities.

Given their size and complexity it is hardly surprising that they are heavy users of the leading-edge thinking that is their stock-in-trade. As such, PSFs make an intriguing case study. What drives their success? What is marketing's role?

Little hard evidence is available to address these questions. However, we find PSFs speak with one voice when explaining their success. Three sets of factors dominate these explanations:

- **Integrity. You must be seen as valuing integrity above all else. However, we believe it is completely overrated in this context. Integrity is a given, not a point of differentiation.**
- **Strong methodologies, sector knowledge and technical expertise**
- **People and infrastructure**

Two patterns stand out. First, most of the major players are working to very similar formulas. They have grown at broadly uniform rates in recent years on the back of a surging market. Aside from the impact of mergers and acquisitions – motivated by economies of scale and scope – relative competitive positions have remained fairly constant, despite much rhetoric to the contrary.

Second, marketing is seldom mentioned as contributing to success. In fact, "marketing's" reputation within these firms is fairly mixed. Our assessment, however, is that marketing in its broader sense has made a major contribution and that PSFs are masters of market orientation (see "Do you value customer value?" Mastering Marketing Part 1, September 14). That is, they have a "client first", highly competitive culture and are outstanding at sensing – and responding to – market signals. This apparent contradiction can be best understood in the context of the development of marketing practice in PSFs.

The marketing overhead

"Marketing" came into the vocabulary of PSFs along with the relaxation of regulations preventing advertising and unsolicited direct contact with non-clients. In the UK this was in the early 1980s. In response, many firms established a marketing services department that focused on communications (press relations, direct mail, advertising, seminars and conferences) and supporting the sales process (in particular, large bids).

Specialists – often from fast-moving consumer goods companies – were brought in to run these activities. Typically they would report to a fairly junior partner whose main qualifications for the job were a good track record for selling new work and a reputation as a creative thinker. These new resources were rarely if ever leveraged by senior management to influence strategic thinking. The prevailing attitude to "marketing" was at best tactical. Why?

The traditional PSF view is that its raison d'être is billable client service. Everything else is "overhead". Without any direct client service responsibilities the newly arrived marketing specialists were an "overhead". Marketing was to be carefully managed and all related expenses and new initiatives subjected to close scrutiny.

In practice, the early marketing services departments added far more value than most traditionalists realised. At a minimum they reined in random and ill-planned expenditure which reflected two PSF syndromes: "pretty it up" and "let's do a brochure".

"Pretty it up" reflects some partners' expectations of marketing people – specialists who could turn dull-looking documents into something a little more glamorous. "Let's do a brochure" is the call to arms of a partner when given a marketing responsibility, say for an office or service line. Eager to show initiative, the partner reaches for what he or she believes to be low-hanging fruit. Unfortunately, these projects turn out to be difficult, time-consuming and politically sensitive. Worse still, the marketing objectives are often unclear and the initiative uncoordinated with other activities.

These attitudes made life frustrating for marketing pioneers. At the same time, they found among their new colleagues an extraordinary commitment to the voice of the market. Client interests were paramount and market sensing and responsiveness highly honed.

Client first

Working with PSFs, one cannot help but be impressed by their devotion to serving clients. We see three main drivers of this dominant value: close customer contact; measurement and reward systems; and leadership.

Customer contact

Seventy to 80 per cent of employees in a PSF spend most of their time solving client problems. Mostly this is in direct face-to-face contact with the client. Further, career progression – however far – does not mean less client contact.

This contrasts with the situation in manufacturing, where most employees have no direct customer contact and senior managers spend only 15 per cent of their time with customers. Even in other service businesses, such as banks, airlines, architects and advertising agencies, the amount and quality of customer contact time are far lower that in PSFs.

Measurement and reward systems

Client contact drives PSFs' measurement and reward systems. Most veterans of PSFs can recall clearly their first exposure to the time sheet during their induction programme. The time sheet is the key to the "time and billing" system. It allows the firm to track the extent to which anyone is "utilised" – that is, working on fee-paying assignments. In at least one firm the practice of publishing the utilisation rates of the top and bottom 10 per cent at each level has had a defining effect on the culture.

A related measure is the "recovery rate", the extent to which the hours spent on an engagement can be turned into fees actually paid by the client. Its effect is to focus the engagement on delivering services highly valued by the client. In turn this encourages spending time with clients to really understand their business.

Leadership

These systems would count for nothing without leadership. Every chief executive has the opportunity to set the organisation's priorities. As PSFs' leaders are almost always home-grown it is not surprising that "client first" rings out at every opportunity. Mike Cook, chairman of Deloitte & Touche in the US, is credited with popularising the idea that "clients are gold and prospects are silver".

Superior market sensing

PSFs have thousands of partners and senior client service staff in the marketplace every day. At least 60 per cent of their time is spent working directly with clients. Another 15 per cent is spent at seminars and conferences interacting with clients, prospects, competitors and other industry figures.

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How is information priced?

Table 1

Cellular subscriber projections in the 1980s

Source	Date of projection	Population included	Date projected for	Number of subscribers (m)
Yankee Group	1985	Total market	1990	0.43
Shoesteck Associates	1983	Urban pop.	Potential	0.53
Shoesteck Associates (a)	1987	n/a	1995	9-12
A.D. Little	1980	Total market	1990	1
A.D. Little (b)	1985	n/a	1994	3
Cellular Business Systems (c)	1985	n/a	1993	3.8
BCG	1986	Total likely	1990	1.2
Link Resources	1984	Total market	1990	1.4
EMG	1985	Total market	1990	1.6
Business Comm. Co. (d)	1985	n/a	1993	1.3
Lehman Brothers	1982	Top 90 markets	1989	2
Dean Witter	1982	Total market	1990	2.1
IRD	1980	Total market	Cellular	2.5
RRNA	1985	Total market	1990	2.6
Goldman Group (e)	1988	n/a	2000	9
DLJ	1985	Top 90 markets	1990	2.6
Leigh	1982	Urban pop.	1990	[illegible]
Arthur Andersen	1984	Total market	1990	7
AT&T (f)	1985	n/a	2000	30-40
		Actual market	**1990**	**5.2**

Sources: Telocator, February 1986, pp. 22-27; (a) Telephone Engineer and Management, July 1987; (b) Washington Business Journal, April 1 1985; (c) Charlotte NC News, June 17 1985; (d) New York Times, June 23 1985; (e) Cellular Business, January 1988; (f) Peoria Illinois Journal Star, May 26 1985.

Philip Parker is professor of marketing at Insead. His research focuses on marketing strategy, international management, pricing, new product diffusion and forecasting.

politicians and analysing sociological trends in Indonesia.

How many reports does the manager buy now? It turns out that the manager will buy both reports and the two sellers will charge near-monopoly prices. *Companies selling low-quality information make high profits!*

Again, low quality does not arise from incompetence. The two companies may, in fact, employ the most competent people on the planet. But their high profits are driven by the fact that the decision-maker is facing great uncertainty and the sellers offer different perspectives. The products they are selling are complements.

The intuition behind Figure 1 is the following. *Consumers facing important decisions may find it* beneficial to purchase from several information-suppliers. This is most likely to occur when the reliability of information is low and the sources of information are independent from each other. Information products in this case tend to be complements and, as a result, competition between sellers is mild.

In the opposite case, information is reliable and/or sellers' sources are highly correlated. Consumers are satisfied after consulting a single source. In this scenario, information products are substitutes and sellers tend to undercut each other's prices to attract consumers.

Implications

Fundamentally, what is the difference between *toothpaste and information? In toothpaste markets,* consumers do not buy two brands, squeeze both tubes onto the same brush and then brush their teeth. But in high value-added knowledge markets something of the sort actually happens. The final product is a blend of multiple inputs that act as complements.

In toothpaste markets low-quality brands do not have higher prices. In information markets the opposite can be the case; consider the difference in price between accurate industry statistics and forecasts generated by management consultants.

This suggests that the competitive strategies recommended in most business-school texts are unlikely to be applicable to knowledge markets where consumers face high uncertainty and sellers offer multiple perspectives. In these markets knowledge products sold by companies are not substitutes but complements. Complementary strategies (as opposed to competitive strategies) are appropriate in these cases.

For example, in uncertain markets a knowledge-seller would prefer to have a *competitor (the fact* that traditional medicine exists increases the value of homeopathic medicine – both types of doctor end up charging higher prices). And given that apparently competing information-suppliers really complement each other, a strong case can be made for allowing them to merge or collude – this could drive information prices down!

What is the implication for information-suppliers? A number of companies have supplied highly accurate information to managers (for example, A.C. Neilsen, *Information Resources*, Dun & Bradstreet, Reuters, Dialog, Reed Elsevier). Some of these sellers are starting to face direct competition from their own primary suppliers and are finding it hard to maintain their margins. Their competitors have identical perspectives.

To reverse this trend they will either need to develop alternative perspectives or reposition their businesses to high-uncertainty markets. Who is currently serving managers facing the highest levels of uncertainty? Mostly strategy consulting companies (for example, McKinsey). Indeed, many consulting companies will refuse to respond to proposals from potential clients if the problems described are too "simple".

Similarly, in the publishing world the highest-priced publications (per page) are industry studies that forecast highly uncertain markets (for example, China) or industries facing uncertainty generated by factors such as deregulation (for example, telecommunications and electric utilities). Traditional data provided by trade associations on historical trends are more accurate but of less market value.

Further reading

Sarvary, M. and Parker, P.M. (1997) "Marketing information: a competitive analysis", Marketing Science 16 (1): 24–38. (A more detailed discussion of Sarvary's model of information markets, which first appeared in his Insead thesis.)

Continued from page 7

3 **Marketing managers need to orientate the rest of the organisation to provide information that is useful for decision making. Accordingly, staff in production, research and development and sales must have an appreciation of what marketing is trying to do so that they can provide the information needed.**

The model marketer

Given the picture sketched above, what kind of people should we expect to see working in a marketing department?

Marketing needs people with the audacity to cancel reports that are no longer used. This may be difficult because other members of the organisation may have a vested interest in the continued production or purchase of certain information. Marketing people also need to have the ability to sort through mounds of information, find what is important and discard the rest. Finally, they should be able to sell an information "vision" to *the rest of the company.*

Traditionally, many businesses staffed their marketing department with salespeople who had shown strong planning potential, and people from advertising agencies. Such people generally knew the business well and had the ability to sell a "vision" to the rest of the company. However, few of them had strong information analysis skills.

Many large companies now staff their marketing departments with business administration graduates who, in general, are taught to think strategically, to take action (so they probably would not have difficulty in cancelling a superfluous report) and to sell their ideas.

Nevertheless, few business administration programmes recognise the importance of information analysis; students now spend much more time in marketing courses discussing cases rather than conducting analysis. It is becoming ever more important for students to be heavily exposed to information and data so they can develop the skills necessary to evaluate information for its usefulness against specific criteria.

Dealers in data

The information revolution has greatly enhanced opportunities for marketing companies. It is enabling them to understand their consumers better, to deliver better products or services to them and to monitor their satisfaction after purchase.

The benchmark for excellent performance in most categories is higher now than it ever was before. The abundance of information has created opportunities for new kinds of services and activities that were not possible in the past.

Nevertheless, it is not possible for all companies with active marketing departments to capitalise on all the opportunities provided by information technology. It is mainly independent companies or entrepreneurs that have capitalised on the opportunities afforded by information and technology. As a result, the sector of companies that sell information products to other businesses has expanded rapidly.

Until the late 1970s, there were two main categories of marketing information companies. The first comprised companies that sold syndicated survey data, such as A.C. Nielsen and IRI. These companies collected data through retail audits or household surveys, prepared and analysed it and sold it to manufacturers and service providers.

This activity became very lucrative because in many industries it was the only way to obtain information on competitive performance on a regular basis. It should be noted that retail audit information is now collected through scanner data and therefore is much more accurate than it was in the past. In addition, some households are now "wired", enabling researchers to analyse the correlation between retail activity and household purchasing behaviour with far more precision than before.

The second category consisted of market research companies that conducted research on a project-by-project basis for large manufacturers. The three main types of research performed by these companies were focus group research, in-depth interviews, and surveys.

The first two types of research provide mainly qualitative information that is useful for investigating problems that are ill-defined or for testing and developing creative advertising. These methods remain indispensable today because feedback is obtained quickly and is relatively cheap. Nonetheless, the information provided is not quantitative and is relatively unhelpful for making important financial decisions.

Scanners mean that retail audit information is more accurate than ever before

The third type of research is quantitative and can be used to assist in making financial decisions. *However, it is expensive to conduct* and requires considerable time to execute – statistically relevant results cannot be obtained quickly, regardless of whether the survey is carried out door-to-door, in the street, by telephone or by mail. Nonetheless, this type of research remains very important.

Recently, opportunities for new market research services have appeared as a result of the information revolution. The companies that offer these services are the "new kids on the block".

The two main areas of rapid growth are:

- the collection of massive databases on loyal customers; generally these are drawn from frequent *flyer/buyer/user programmes.*
- the active collection of data on people through general surveys, electronic inquiries, or even internet activity that can subsequently be used to implement marketing activities

There has been a large increase in the number of businesses and products that offer frequent-consumer programmes. Many of these programmes, such as the ones operated by airlines, are wholly owned and operated by individual companies. There are also schemes, such as air miles, that are run by independent operators and that offer bonuses for purchasers across a large number of categories.

These programmes give suppliers an opportunity to tailor offers to individual customers and to increase the value that a customer obtains by being loyal. However, it is difficult to determine whether they have been effective in increasing profits for marketers.

On the one hand, loyalty programmes are designed to make customers more faithful, thus allowing suppliers to increase prices (net of loyalty programme benefits). On the other, the competitive effects of loyalty programmes may cancel each other out and simply increase overall operating costs.

This outcome is most common when customers have the opportunity to belong to several schemes. It would be interesting to ask airline executives today whether their frequent flyer programmes are truly generating the benefits that were envisioned when they were created in the early 1980s.

The second area where there has been a huge increase in activity is in the collection of consumer information by electronic means. In some cases, independent entrepreneurs actively gather information; in others, companies leverage information that they accumulate as a by product of other activities. One of the most successful "new kids" is Icom, a Canadian database marketing company (see box below).

These market researchers provide businesses with effective methods for converting marketing dollars into trial for new brands and into loyalty and volume-building programmes for established brands. The primary benefit of new information-based marketing services is better targeting and less money spent on people who are already users or who are not interested in the category.

This approach has significant implications for marketers. Activities that used to be associated with substantial wastage and poor response, such as couponing, can become much more attractive with better targeting. Companies may shift funds away from mass-marketing activities due to the higher impact that direct marketing activity can deliver.

The key to success in the future, even for a packaged goods producer, may be knowing the name of each of one's customers and engaging in a regular dialogue about his or her needs.

Things to come

So with all the changes that have already occurred in marketing due to information technology, what can we expect in the future?

First, continued advances should be expected in terms of the types of information products that will be available to marketers. At present, most databases are used in isolation for different marketing initiatives. The linking of databases is still rare because of technical difficulties. As technology improves, this will become easier and more common. Linking a frequent buyer database with a syndicated mailing database (for example) would provide significant opportunities for marketers.

Second, there will be growth in the number of consumer-orientated information companies. At present, there are very few companies that offer consumers guidance on shopping and other activities – by pointing them towards the best prices or *performance in the market, for example.* For marketers, this development will intensify price competition when products offer equivalent performance. It may also bring about a quicker end for products that do not perform to industry standards.

Finally, many industries will be rationalised because of the increased competition resulting from advanced shopping technology. We need only think of the pressure placed on local bookstores by new internet competitors such as Amazon.com.

New businesses will arise to build expertise in the specialised communication channels that are used to interact with consumers. For example, the distributor of the future may specialise in providing a range of *products and services through the* internet or via interactive shopping channels. Traditional companies such as Nestlé and Adidas will have to deal with these new distributors and exploit the opportunities they provide to reach a growing number of customers.

Further reading

Engineering Dimensions, Professional Engineers of Ontario, November/December 1997, 26–31. (The paper from IBM indicating the amount of time wasted by managers chasing information.)

How Icom taps the power of data

One company that is thriving on the information explosion is Icom Information and Communications, based in Canada. Serving clients such as Procter & Gamble, Johnson & Johnson, Nestlé, Unilever, Lexus and Reader's Digest, Icom epitomises target marketing in the information age.

The company aims to find innovative and cost-effective ways to target individual consumers and has become one of the fastest-growing database marketing companies in North America. It collects detailed product usage and purchase profiles from more than 20m households through proprietary census-scale surveys and houses the resulting mass of individual consumer information in a specialised database using advanced data scanning, interpretation and computer storage technologies. This information is then used to construct a range of data and communications products for marketers. The company also provides database design services.

To help marketers "narrowcast" a range of messages, samples and coupons to relevant segments of the database, Icom has automated the process of syndicated mailings, where the contents of each mailing are tailored to the habits of each target household. According to Alan Levine, Icom's co-chief executive, information technology has allowed the company "to create the economies of scale associated with traditional mass marketing while achieving the persuasiveness of one-to-one selling."

But individualised mailing is only one of the possibilities created by the explosion in information-based marketing. Accordingly, Icom is working in a number of new areas. Its statisticians and programmers have developed a program that can track brand usage among consumer segments with specific media habits. The company is also developing a series of new information products that link consumer purchase habits to retailer-specific shopping behaviour. The initial response to these products, says Levine, indicates that there is a substantial market.

Escaping the commodity trap in business markets

Summary

Business-to-business markets are increasingly operating as commodity markets. That is, customers perceive few differences among suppliers' offerings and hence make purchase decisions solely on the basis of price. This puts severe pressure on suppliers to cut prices, which harms profits. According to **James Anderson** and **Gregory Carpenter**, a supplier's smartest response is to differentiate its offerings in a way that customers will value. Possible strategies are to build knowledge or expertise that can be used to provide solutions for customers (perhaps via partnering arrangements), to persuade customers to focus less on the core product's price than on overall value, and to ensure that products and services are flexible. The authors also explain how suppliers can obtain an equitable return for providing such superior value.

In many business markets, customers are perceiving fewer and fewer differences among competitors' offerings. The main reasons for this are the quality management movement in production and the greater availability of comparable alternatives from international sources. As a result, customers are making an increasing number of purchase decisions on the basis of price alone – the definition of a *commodity* market. They are pressuring suppliers to reduce their prices and provide additional price discounts. In industry after industry, suppliers are finding that although their sales revenues are growing, it is often at the expense of profitability. The present article will explain how suppliers can forestall or reverse this trend.

Suppliers often conclude that they are in a commodity business simply because they think narrowly about the core product or service. The personal computer, hospital supplies or letter of credit that the customer purchases may be nearly or *exactly the same across suppliers*. But the market offerings that companies purchase are typically more than just the core product or service. They contain supplementary services, programmes and systems that enhance the value of the core product or service and that provide additional value to customers.

Before concluding that they are in a commodity business, suppliers need to look more closely at market and internal data to determine exactly what differences there are between their offerings and their competitors'. Specifically, they should *estimate the value that customers receive, validate* their pricing and estimate their share of customers' business.

Estimate the value that customers receive

Value is the worth in monetary terms of the technical, economic, service and social benefits a company receives in exchange for the price it pays. It is always assessed within some context; typically it is a comparison of an offering's value with what the customer is currently using or with the next best supplier's offering.

To *estimate the value that a customer receives*, the supplier gathers comprehensive data on how its offering adds value or reduces costs in the customer's application. At the same time, suppliers should investigate how much changes in their market offerings would be worth to customers. They should also weigh service and social benefits, which can be significant sources of value.

Consider, for example, safety glasses. These provide the technical benefit of protecting workers' eyes from infrared and ultraviolet light and foreign substances. They provide the economic benefit of fewer lost days due to injuries and lower insurance premiums. To obtain these benefits, workers must wear the glasses; however, some younger workers feel that the glasses make them look "dorkish" and hence do not wear them when they should.

Taking a more comprehensive view of value, Dalloz Safety Products has designed a line of safety glasses that look like designer sunglasses. They have contoured wraparound frames that come in a variety of colours, with lenses in a selection of tints. Since workers actually enjoy wearing such stylish protective eyewear, workplace compliance is no longer a problem.

Validate market pricing

Understanding competitors' prices is often difficult in business markets because of problems in determining comparability. A supplier should investigate what supplementary services are included in a competitor's price. Unfortunately it may be in the customer's interest to dissemble about a competitor's pricing and offering. An additional difficulty is the increasing use of a variety of off-invoice discounts, such as year-end rebates or bonuses.

Suppliers must gather data from the field on the range of prices that customers are paying for market offerings. They should also seek out disconfirming as well as confirming evidence on competitors' pricing moves. For example, if a salesperson reports that a competitor has cut the price of its market offering, a supplier should seek not only other instances of price cutting but cases where the competitor did not reduce the price of its offering. *Such data will provide a finer-grained understanding of variations in competitor pricing.*

A supplier must also gather data about its own prices. Off-invoice rebates or allowances, whose size may depend on the amount of business that the customer has done with the supplier during the quarter or year, make it difficult for a supplier to know at the time exactly how much it is gaining from a given transaction. Monitoring transaction prices enables a supplier to learn the extent to which exceptions are being made to pricing policy. One supplier discovered that 67 per cent of its business *was done on the basis of non-policy requests* – transaction pricing that deviated significantly from established pricing policy.

Estimate share of customers' business

What percentage of a customer's total purchase requirements for a particular product or service does a supplier obtain? Although most companies in business markets have some estimate of their market share, far fewer have estimates of their share of each customer's business in the markets they serve. Yet "share of customer's business" is much *more diagnostic in that it pinpoints accounts* that see the supplier's offering as superior to competitors' and suggests sources of differentiation.

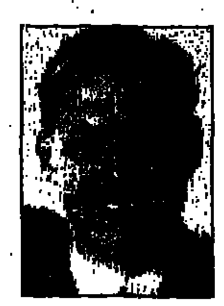
Suppose that a supplier has a 20 per cent market share. It is unlikely that each customer in the market is purchasing 20 per cent of its requirement from the supplier. Rather, some customers are purchasing nothing from the supplier whereas others are purchasing more than 20 per cent of their requirements. What differentiates large-share customers from minor-share customers and what sources of differentiation would be possible if the customer were to give the supplier a share of 100 per cent?

Sources of differentiation

In business markets where the core product or service is seen as a commodity, it may be extremely costly or difficult to differentiate it in a way that customers would perceive as significant. But by considering more broadly how they might deliver value to customers, suppliers can identify significant sources of differentiation. Some valuable strategies are discussed below.

Create knowledge banks

A supplier can search for knowledge that would be valuable for customers to have, yet is difficult for customers to acquire by themselves. An example is how the customer's ways of doing things compare with those of competitors.



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Allegiance Healthcare, a leading distributor of hospital supplies, has built a best-practice database from the experiences of 100 leading hospitals. The database details the activities performed and resources consumed in each of 30 procedures that together account for 80 per cent of the hospitals' surgical operations. Armed with the information on the database, Allegiance's clinical consultants can work with customers to identify deviations from best practice in order to reduce costs and improve productivity.

Build leveraging expertise

A supplier can search for problems that a number of customers experience, with a view to investing in expertise that could be used to provide solutions. In doing so, it should be able to provide superior solutions to customer problems and differentiate itself from competitors.

GLS Enterprises, a distributor of composite materials and elastomers, recognised that it could leverage its expertise in environmental, health and safety regulatory compliance as a value-adding service for its customers, which are mostly small and medium-sized companies. GLS monitors the Federal Register and writes bulletins alerting customers to regulatory changes and reminding them of existing standards. It supplies a regulatory compliance manual, audits compliance at customers' sites and helps smaller customers to prepare their annual toxic chemical release inventories and air emissions statements.

Without GLS's assistance, these customers would find it difficult and costly to keep up with regulatory changes. Senior managers welcome GLS's support, because failure to comply with regulations can lead to criminal prosecution.

When corporate customers buy personal computers (PCs), they often want to install software that is specific to their companies, in addition to software from companies such as Microsoft. To do this typically takes an hour or two, has a total cost of between \$200 and \$300 and is a bother to both the user and the company's PC support staff. Dell Computer recognised that it could build expertise that would enable it to put an end to this costly nuisance. It created a high-speed, 100-megabit Ethernet at its factory that can instantly download a tailored mix of software onto major customers' *computers.*

Change the customer's frame of reference

Customers that focus on the core product or service

Continued on page 6

A critical problem for movie marketers

Summary

One of the biggest challenges for marketers is the "experiential" product – one whose quality is hard for the consumer to assess without actually experiencing it. A sector that confronts this problem in particularly acute form is the film industry. Yet according to **Jehoshua Eliashberg**, Hollywood's marketing departments rely too much on questionable conventional wisdom. In particular, he argues, they tend to treat critics as influencers of a film's opening revenues, whereas research suggests that they should instead be regarded as predictors of its long-term performance.

With an average production cost of more than \$50m and associated average marketing costs of more than \$25m, a Hollywood film has to gross more than \$100m in the US simply to break even (that is, after giving cinemas their share of the revenue).

One would therefore expect the film industry's marketing to be state-of-the-art, using the latest perspectives and practices. In the present author's view, however, it lags behind the consumer packaged goods industry and other businesses in some important respects.

In general, the industry has been reluctant to embrace the use of predictive techniques and decision support systems. Managers are sceptical of the ability of modern tools and models to predict audience response. Often they rely on judgment, historical cases and conventional wisdom.

For example, one widely accepted piece of industry wisdom is that critics have the power strongly to affect box office receipts at the start of a movie's run. The argument is that when a film is newly released, viewers have virtually nothing else to go on when they decide whether to see it or not. Yet as we shall see later, the importance of critics lies elsewhere.

Marketing movies

As in many other industries, the key components in an effective movie marketing strategy are analysis, design and execution. Of these, the first is fundamental.

Analysis requires studios to segment and target the audience in new ways. Summer moviegoers, for example, are becoming older and more educated and accordingly require more serious and sophisticated types of movies. *Saving Private Ryan*, for *instance, is believed by Steven Spielberg's* DreamWorks company to have attracted people who had not been to the movies in years.

Viewing target audiences in terms of traditional demographic variables – such as age and gender – may lead to overly narrow and possibly misleading conclusions. Segmentation and targeting could be improved significantly by using "psychological" variables such as lifestyle, interests, personal and social aspirations and tendency to seek sensation.

Designing a positioning strategy based on such variables and executing it through appropriate media vehicles – *television spots, the internet* and cinema trailers, for example – has the potential to boost initial audiences significantly. Unfortunately, the movie industry underexploits this potential, in part because it focuses too much on the role of the critic at the film's launch.

The role of the critic

Moviegoers' behaviour and their decision whether and when to attend a movie can be broken down, in principle, into two basic time intervals: the time it takes the moviegoer to decide to see a particular movie, and the time it takes him or her to act on that decision.

The first time interval can be influenced by word of mouth and – via an appropriate marketing strategy – by the studio. The second depends on factors such as how much free time the moviegoer has, the number of other films he or she wants to see, and whether the movie is on nearby. The role played by film critics in the decision-making process is less apparent.

The pattern of box office receipts, however, may indicate whether the critic should be seen as an "influencer" or a "predictor" of a film's performance. If critics were actually able to influence box office revenues, we would expect that influence to be most noticeable when a film opens. As more people see a film, the critic's influence should diminish because information from other sources becomes available. Word-of-mouth information from friends could dissuade someone from seeing a movie regardless of good reviews – or could persuade someone to see a film that has been panned. Thus *Hook* did well at the box office despite mostly negative reviews, while *Gettysburg*, a movie universally praised by critics, did not fare well.

The evidence we found is intriguing: reviews tend to be correlated with cumulative performance but not with opening box office revenues. Although it is impossible to disentangle causality and correlation completely, we can estimate the correlation between critics' reviews and box office performance for each week of a movie's life.

PICTURES: RONALD GRANT ARCHIVE

Hook **(above) was a box office success despite poor reviews, whereas** ***Gettysburg*** **(right) was praised by critics but fared poorly at the box office**

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Much of the information in this article first appeared in "Film critics: influencers or predictors" by J. Eliashberg and S. Shugan in the Journal of Marketing (April 1997). Other sources are listed at *www.ftmastering.com*

We found that the impact of reviews is actually greater in the later weeks of a movie's run than in the opening weeks. Our findings therefore support the view that critics are predictors rather than influencers.

Most studios, however, have a strong belief in the influencer model. Accordingly they sponsor screenings and make direct contact with reviewers in the hope of garnering good reviews. Film-makers tell horror stories about how films were dropped following bad reviews.

Strategic implications

Which of these models one subscribes to – the "influencer" or the "predictor" – has substantial implications for marketing. And the debate is not just of relevance to the film industry. After all, some companies spend a lot of time and money trying to sway opinion leaders.

If critics are influencers, a studio should use them as part of the marketing campaign. For example, if a studio expects a movie to receive mostly negative reviews, it will not want to offer previews. If, on the other hand, it anticipates positive reviews, it should schedule the preview immediately before the release to maximise the influence of the influencers.

A different approach is called for if critics are predictors. Studios should hold previews well in advance of the release. If the reviews are negative, studios should then have time to make changes to the film (by re-editing it or restoring cut scenes, for example) or to the marketing strategy (bypassing cinemas and releasing the film on video first, say). Positive reviews may have segmentation and positioning implications. Critics would, in effect, assist in determining the appropriate marketing budget and strategy for a film.

The influencer perspective suggests that quotations from critics should be used in advertisements for films. There are three reasons for this. First, the quotations persuade moviegoers to see the film. Second, they help publicists gain favour with critics, because each quote helps to boost the critic's reputation. Third, quoting may encourage some critics to make favourable comments to get self-publicity.

The predictor perspective suggests that quotations may be desirable but that advertising should focus on other information. It suggests that trying to influence critics does not provide significant benefits. Reviews can, however, provide valuable predictive diagnostics. Critics who broadcast to or write for a particular market segment might accurately predict a film's success or failure within that group. Correlating viewers' or readers' demographic and psychological variables with critics' reviews could enable studios to predict which groups or geographical areas will like a film.

As noted earlier, our data support the theory that critics are predictors rather than influencers at the aggregate box office level. This has managerial implications. First, trying to persuade film critics is a costly distraction; instead, management should focus on the film itself. Second, prescreenings should focus on critics who represent particular audience segments. Analysis of their responses will enable studios to segment target audiences more precisely and to position the movie correctly. In addition, better predictions of box-office performance will be obtained. With accurate predictive tools, studios may be able to fix a small problem before it becomes big.